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***JOINT FORCES STAFF COLLEGE***  
**JOINT ADVANCED WARFIGHTING SCHOOL**

**Countering Iranian Sponsored Terrorism**

by

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**A paper submitted to the Faculty of the Joint Advanced Warfighting School in partial satisfaction of the requirements of a Master of Science Degree in Joint Campaign Planning and Strategy.**

**The contents of this paper reflect my own personal views and are not necessarily endorsed by the Joint Forces Staff College or the Department of Defense.**

**This paper is entirely my own work except as documented in footnotes.**

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**10 June 2010**

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## **ABSTRACT**

This thesis examines Iran's sponsorship of terrorism as a tool of policy, the threat this poses to U.S. national interests, and the need for the U.S. to implement a comprehensive strategy to change Iran's behavior. Dealing with Iran's sponsorship of terrorism is fundamental to the U.S. national interests of stabilizing the Middle East. The United States must implement a comprehensive strategy supported by the international community, incorporating a combination of soft power initiatives and U.S. military action, while conveying the message that the United States seeks to normalize relations with Iran. Among the factors that complicate this are Iran's tortured history with the United States, Iran's history of differences with the Arab people, Iran's current security situation, and global economic issues. Key to exploiting Iran's inability to produce gasoline is not sanctions against third party nations; it is gaining the support of those third parties in changing Iran's behavior. Three activities compose Iran's sponsorship of terrorism: the direction of activities of a person or organization, the supply of funding or armament, and the use of national assets or territory for training or intelligence. Iran must cease these activities before the United States can normalize relations with Iran.

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## INTRODUCTION

The Department of State and the Central Intelligence Agency cite Iran as the most active state sponsor of terrorism, yet the United States has no policy that provides a pathway to address this threat to U.S. national security.<sup>1</sup> In order to counter Iran's sponsorship of terrorism, the United States must implement a comprehensive strategy that incorporates a combination of soft power initiatives backed by the employment of U.S. military action.

Currently, the United Nations Security Council has passed resolutions and the United States Congress has passed laws intended to counter both Iranian arms proliferation and Iran's intent to develop a nuclear weapon. However, because neither the U.S. nor the UN has shown significant resolve to enforce its own laws and resolutions, Iranian sponsorship of terror has continued to flourish. Countering Iran's sponsorship of terror will require a comprehensive strategy to gain the support of the international community to stem the flow of weapons from Iran to terrorist organizations while reducing Iran's ability to fund these terrorist organizations.

Numerous factors complicate the employment of a comprehensive strategy. Among these are Iran's tortured history with the United States, Iran's history of differences with the Arab people, Iran's current security situation, and issues presented by both global economics and Iran's major trade partners. When these factors combine, they represent a very difficult challenge to the international community to deal with Iran's violations of treaties and international resolutions.

Understanding several important factors significant in Iran's relationships with both the U.S. and the Arab world is vital in formulating a comprehensive strategy toward countering Iranian sponsorship of terrorism. These factors include the 1953 overthrow of Mohammed Mossadeq, U.S. policy toward Iran both before and since the Iranian Revolution in 1979, the Iran-Iraq war

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<sup>1</sup> U.S. Department of State Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2005*(Washington, DC, April 2006), 173.

and the U.S. involvement in supporting Iraq while covertly participating in the Iran-Contra affair, and U.S.-Iranian relations since 11 September 2001. The common theme among all these events is the common distrust between the U.S. and Iran, and the inability of either government to reconcile this distrust and open diplomatic relations.

Iran's tension with the Arab states is born from Iran's historical prominence in the region and Iran's current attempt to regain this prominence as both a protector of the Persian Gulf region and as the Shiite pillar in the Islamic world. Foremost in the minds of Iranian leaders is its unsteady security situation presented by Iran's lack of regional influence, which may be supplanting the export of the revolution as Iran's primary national interest.

Sponsorship of terrorism is among the ways and means Iran has instituted in order to support its goal of increased security that has developed as a result of the two preceding conditions. Three activities or components are related to Iran's sponsorship of terrorism: the direction of activities of a person or organization, the supply of funding or armament, and the use of national assets or territory for training or intelligence.<sup>2</sup> Iran executes these three activities through the Iranian Revolutionary Guards Corps (IRGC), Lebanese Hezbollah, al Qaeda, and legitimate businesses and charities such as the Islamic Republic of Iran Shipping Lines and the Alavi Foundation.

Dealing with Iran's sponsorship of terrorism is fundamental to the U.S. national interests of stabilizing the Middle East, securing the critically important trade routes that support the flow of oil from the region, and securing the U.S. and its allies from terrorist attack. Understanding Iran's economy and the critical vulnerability presented by Iran's dependence on gasoline imports is a key component in the architecture of a comprehensive plan to influence Iran. Because Iran has implemented a plan to increase its oil and gasoline production, the U.S. must leverage this

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<sup>2</sup> Yonah Alexander and Milton Hoenig, *The New Iranian Leadership: Ahmadinejad, Terrorism, Nuclear Ambition and the Middle East* (Connecticut: Praeger Security International, 2008), 52.

critical vulnerability to counter Iran's sponsorship of terrorism.

Although both the United States and the United Nations have enacted sanctions regimes to place pressure on Iran to change its ways, these sanctions have been ineffective, allowing Iran to continue its sponsorship of terrorism. Further sanctions will take years to be effective, and therefore would be ineffective against Iran's oil and gasoline industry given current time constraints. Therefore, the United States must devise a comprehensive strategy that garners the support of the international community; maintains the national interests of the United States; and addresses the economic and security interests of Iran and its people.

Key to exploiting Iran's inability to produce gasoline is not to impose sanctions against third party nations; it is gaining the support of those third parties in changing Iran's behavior. The exploitation of Iran's gasoline refinery shortage begins with diplomatic efforts directed at China and Russia, expands through U.S. military strikes against gasoline refineries and terrorist training facilities in Iran to cause Iran to be solely reliant on gasoline imports from its trade partners. This comprehensive strategy to change Iran's behavior must convey the message that the United States seeks to normalize relations with Iran, but that Iran must meet predetermined conditions for this to occur or face possible military and economic action intended to force Iranian compliance with UN anti-terrorist resolutions.

## CHAPTER 1

### SETTING THE SCENE: Why Dealing with Iran is So Difficult

#### **U.S. - Iranian Relations: 1953-2001**

The complexities of the relationship between the United States and Iran have two vital aspects. First, the U.S. has a turbulent (and somewhat sordid) history of direct and indirect involvement in Iran. Second, as Henry Kissinger stated, “few countries have as many strategic interests in common as America and Iran.”<sup>1</sup> These strategic interests include the free flow of trade across the globe, access to oil as a strategic resource, interest in the Middle East Peace Process, and access to nuclear weapons.<sup>2</sup>

Five significant historical events define the relationship between the U.S. and Iran: the U.S. of conduct Operation Ajax, the 1953 overthrow of the Mossadeq government in Iran; the Iranian Revolution in February 1979 that brought Ayatollah Khomeini to power; the U.S. support to Iraq in the Iran-Iraq war; the 1980s Iran-Contra affair that dealt weapons for hostages held in Lebanon; and finally, the U.S. involvement in the current conflicts in Afghanistan and Iraq.

#### **Operation Ajax: Tactical Success, Strategic Failure**

...to be sure, Iranians would remain optimistic about American values, but the events of 1953 would provide a cautionary note that the United States was not always true to its declared principles and often abandoned the democratic cause when confronted with countervailing pressures.<sup>3</sup>

Operation Ajax was a covert operation to overthrow Mohammed Mossadeq in Iran. At the time, the CIA viewed the operation as one of their greatest achievements. The Agency conceived

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<sup>1</sup> Henry Kissinger as quoted in Adam Tarock, *Iran's Foreign Policy Since 1990: Pragmatism Supersedes Islamic Ideology* (New York: Nova Science Publishers Inc, 1999), 33.

<sup>2</sup> Alistair Lyon, “FACTBOX: U.S. Disputes With Iran Mask Shared Interests,” *Reuters.com*, (March 20, 2009), 1-3.  
<http://www.uk.reuters.com/article/iduktre52j1n820090320?pagenumber=3&virtualbrandchannel=0>  
(accessed March 17, 2010)

<sup>3</sup> Ray Takeyh, *Hidden Iran* (New York: Times Books, 2006), 94.

Operation Ajax with a two-fold purpose: to quell the spreading tide of Communism and to secure U.S. energy interests in the region.<sup>4</sup> To achieve these ends, the CIA funded a non-violent overthrow of Prime Minister Mohammed Mossadeq, and then installed one of Shah Mohammad Reza Pahlavi's loyalists in his place. Although the operation was not immediately successful, the Shah was eventually able to consolidate power in Iran.

Operation Ajax was a great tactical and operational success, but resulted in a strategic failure because it helped create preconditions that led to Ayatollah Khomeini's ultimate rise to power. These preconditions revolved around misapplied profits from Iranian oil toward military equipment instead of benefiting the Iranian economy and a growing U.S. presence in Iran perceived to be interfering with Iranian internal affairs.

### **U.S. Policy Toward Iran 1953-1979**

Following the re-instatement of the Shah in 1953, the U.S. policy toward Iran was characterized by overwhelming military support in order to solidify U.S. access to oil while denying the USSR access to a warm water port. Prior to the coup, Prime Minister Mossadeq had traveled to the United States to secure a loan in order to upgrade Iranian oil fields. The United States government not only denied the request, it also boycotted Iranian oil.<sup>5</sup> With the Shah's return, the Iranian government resumed oil concessions to the West.<sup>6</sup> The Shah also accepted a large U.S. military presence in Iran as part of a modernization program. The United States provided \$500 million in military aid to Iran between 1953 and 1963.<sup>7</sup> In the decade these actions took place, Ruhollah Khomeini preached against the government and in 1963, the clerics

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<sup>4</sup> Alidad Mafinezam and Aria Mehrabi, *Iran and Its Place Among Nations*, (Westport CT: Praeger Publishers, 2008), 29.

<sup>5</sup> Michael Axworthy, *A History of Iran: Empire of the Mind*, (New York: Basic Books, 2008), 235.

<sup>6</sup> Mafinezam and Mehrabi, *Iran and Its Place Among Nations*, 29.

<sup>7</sup> Axworthy, *A History of Iran: Empire of the Mind*, 240.

named him an Ayatollah.<sup>8</sup> Shortly thereafter, Khomeini's sermons against the Shah and the U.S. led to his exile in 1964. From exile in Turkey and Iraq, Khomeini had the freedom he needed to speak out, unfettered, against the Shah.

In the last fifteen years of his reign, the Shah's government continued to decline and began to become more hardened and repressive towards its people in order to maintain power.<sup>9</sup> The Shah became disconnected from the Iranian people once he began to withdraw from public life. The repression of the people drew international attention, and in 1975 Amnesty International declared the Shah's government "one of the world's worst violators of human rights."<sup>10</sup>

The unintended and lasting effect of Operation Ajax has been the animosity that exists today between the governments of Iran and the United States. Secretary of State Madelaine Albright did eventually apologize for Operation Ajax, however, the timing of this apology was poor as it came three years after President Khatami made conciliatory overtures toward the United States.<sup>11</sup> U.S. involvement in Iranian politics and internal issues, combined with the perceived weakness of the Shah and the repression of the people, created strong internal dissent. Khomeini leveraged his voice with the people, eventually wresting control of Iran from the Shah.

### **The Spectre of 1979**

Americans typically view the February 1979 revolution in Iran and the November 1979 takeover of the U.S. Embassy in Iran as the same event. However, it is important to recognize that Ayatollah Khomeini's ascension to power in February 1979 merely set the stage for the later hostage situation. Extremists did not besiege the U.S. Embassy until November, following the Shah's admittance to the United States for medical treatment in October. The Shah ultimately remained in the hospital for six weeks, during which time Iran demanded that the United States

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<sup>8</sup> Axworthy, *A History of Iran: Empire of the Mind*, 242.

<sup>9</sup> Ibid., 250.

<sup>10</sup> Ibid.

<sup>11</sup> Takeyh, *Hidden Iran*, 114.

deport the Shah to Iran to stand trial. The United States refused to deport the Shah, as he had been a longtime friend and supporter. The U.S. government was clear that it was not going to allow the Mullahs of Iran to try the Shah under Sharia law. Ultimately, the Iranian people accused the United States of meddling in Iranian internal affairs and besieged the U.S. Embassy.

Throughout the 444 days of the hostage crisis, the United States was helpless to influence Iran. In desperation, President Jimmy Carter authorized Operation Eagle Claw, a special operations mission designed to free the hostages. Eagle Claw only proved to the world that the United States indeed was helpless, as the mission ended in tragedy and failure on 25 April 1980. But a turning point in US-Iran relations was just over the horizon, although neither side was able to anticipate it.

### **Iran-Iraq War 1980-1988: Taking Sides**

Iraq's decision to invade Iran forced the Arab world and the United States to take sides in the conflict. The decision to support Saddam Hussein during this conflict aligned the U.S. on the side of the Sunni Arabs, exacerbating the existing divide in U.S.-Iranian relations. In the eyes of the Iranian people, the United States chose to support a ruthless dictatorial regime that would eventually employ chemical and biological agents against Iran. According to author Ray Takeyh, "It baffled Iran's leaders and citizens alike how the western bloc, with its emphasis on human rights and democratic values, had come to embrace a tyrannical Sunni ruler."<sup>12</sup> Ironically, the majority of the world's powers, to include many of the world's influential Muslim powers, had sided against Iran.

The combined support of the Arab world and the U.S. placed Iran in the difficult position of facing potential annihilation. In the end, supporting Iraq had a galvanizing and stabilizing effect on the region, and ultimately secured the near-term flow of oil and trade. In 1988, Iran sued for

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<sup>12</sup> Takeyh, *Hidden Iran*, 173.

peace with Iraq, having lost nearly a generation of its young men, a great deal of its military equipment, and the majority of its refineries. The combined effect of these losses was to lead to the transformation of the IRGC from a small domestic force to the dominant executive agent in Iran's sponsorship of terror and moved Iran from a reliance on a strong conventional military to a reliance on terrorism as a means to achieve security.

Through the late 1970s and into the 1980s the incidence of terrorism rose sharply in the Middle East, and in Lebanon specifically. In order to secure the release of hostages in Lebanon, elements of the National Security Council (NSC), with CIA assistance, began a covert arms deal with Iran in 1985 that was to infamously become known as the Iran-Contra affair. This scandal would serve to erode US-Iranian relations even further.

### **Iran-Contra, Arms for Hostages**

The Reagan Administration struggled with a loss of credibility in Lebanon due to the high number of U.S. hostages being taken by terrorist organizations and the great losses suffered in both the U.S. Embassy and Marine barracks bombings in Beirut. President Reagan had an overwhelming urge to attempt to secure the release of the hostages held in Lebanon, but with the spectre of the failed attempt to free the hostages in Iran still fresh in America's mind, a military option proved unviable. President Reagan's quest to secure the release of the hostages in south Lebanon led him to agree to the covert sale of arms to Iran.<sup>13</sup>

The execution of Iran-Contra began in 1985 following the passage of the Boland Amendment in 1984, which forbade the CIA from supporting the Contras. The operation provided a means whereby the United States shipped weapons to Israel. In Israel, the weapons were trans-loaded to Israeli aircraft and then flown to Iran. Unbeknownst to President Reagan, the National Security

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<sup>13</sup> Lawrence E. Walsh, "Final Report of the Independent Counsel for Iran/Contra Matters, Volume 1 Investigations and Prosecutions," *Office of Independent Counsel*, (August 4, 1993), Found in Executive Summary, and Chapter 27 on President Reagan. <http://www.fas.org/irp/offdocs/walsh/> (accessed December 5, 2009)

Council then funded the Contras with the proceeds from these weapons sales. This operation not only violated existing U.S. law, but also ran counter to the administration's policy of supporting Iraq in the Iran-Iraq war. Nevertheless, the Reagan administration believed that it was protecting American citizens by conducting this operation to gain Iranian support to influence Lebanese hostage takers.

The actual effectiveness of the arms for hostages arrangement remains in doubt. Over the entire length of the program, the United States sold thousands of anti-tank and anti-aircraft missiles to Iran. In the end, the Iranians only helped with the release of three hostages, even as hostage taking continued.<sup>14</sup>

The United States would again call on the assistance of Iran to help organize the Northern Alliance in Afghanistan, following the attacks of 11 September 2001. Unfortunately, due to the continued tension between the two countries, Iran would take an approach contrary to U.S. interests.

### **U.S. Policy Toward Iran 1989-2001**

The policy of the United States government toward Iran since the Islamic Revolution has been one of containment, first initiated as a dual containment strategy toward both Iran and Iraq.<sup>15</sup> Best stated in the words of author Hossein Alikhani, "In the decades since the 1979 Islamic Revolution, the United States has tried to isolate Iran diplomatically, militarily and economically, relying on wide-ranging unilateral sanctions and export controls."<sup>16</sup> This policy of increasing and relaxing sanctions against Iran has had little effect on Iran's sponsorship of terrorism, however. In his book, *Feeling good or Doing Good With Sanctions: Unilateral*

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<sup>14</sup> Walsh, "Final Report of the Independent Counsel for Iran/Contra Matters, Volume 1 Investigations and Prosecutions," Found in Part 1: Underlying Facts

<sup>15</sup> Axworthy, *A History of Iran: Empire of the Mind*, 275.

<sup>16</sup> Hossein Alikhani, *Sanctioning Iran Anatomy of a Failed Policy*, (London: I.B. Tauris & Co Ltd, 2000), p 23.; For an overview on sanctions regimes, sanctions theory, and the sanctions imposed by the United States and the United Nations, see Appendix C.

*Economic Sanctions and the US National Interest*, Ambassador Ernest H. Preeg states that “[In general] unilateral sanctions do not achieve their intended objective, but do adversely affect other U.S. interests.”<sup>17</sup> Although the Iranian government became more moderate with the election of Mohammad Khatami in 1997, the U.S. and Iran failed to reconcile their differences and open diplomatic relations. The fluctuation in both the Iranian and U.S. leadership has produced an ebb and flow in the U.S. unilateral sanctions regime that Congress passed and continued to strengthen. Therefore, neither country made an attempt at rapprochement.

### **September 11, Afghanistan, and Iraq**

On 26 September 2001, in the aftermath of the attacks of September 11<sup>th</sup>, Iran’s Supreme Leader Ayatollah Khameni issued the following statement: “The Islamic Republic of Iran will not offer any assistance to America and its alliance in their attacks [on Afghanistan].”<sup>18</sup> The Iranian statement was not surprising. Iran has supported Afghanistan consistently, and with significant resources, for years. For example, Ismail Khan, the long time leader of Afghanistan’s Herat Province, stated “I have to say very unambiguously that for the last 23 years of civil and foreign war in Afghanistan, it was only Iran and China that were consistent in their support of us.”<sup>19</sup> Indeed, U.S. sources claim that Iran has contributed over \$600 million in aid to Afghanistan between 2001 and 2007.<sup>20</sup> While the U.S. continues to agonize over an appropriate policy toward Afghanistan, Iran has remained faithfully committed to maintaining a strong alliance with regional leaders in Afghanistan. Through this policy, Iran has succeeded in keeping the threat of the Sunni Taliban at bay, while simultaneously stabilizing its eastern border.

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<sup>17</sup> Ernest H. Preeg, *Feeling good or Doing Good With Sanctions: Unilateral Economic Sanctions and the US National Interest*, (Washington D.C.: Center for Strategic and International Studies Press, 1999), 221.

<sup>18</sup> Muhammad Tahir, “Iranian Involvement in Afghanistan” Jamestown Foundation.org, [http://www.jamestown.org/programs/gta/single/?tx\\_ttnews%5Btt\\_news%5D=1004&tx\\_ttnews%5BbackPid%5D=182&no\\_cache=1](http://www.jamestown.org/programs/gta/single/?tx_ttnews%5Btt_news%5D=1004&tx_ttnews%5BbackPid%5D=182&no_cache=1) (accessed October 11, 2009)

<sup>19</sup> Thomas H. Johnson, “Ismail Khan, Herat, and Iranian Influence,” Center for Contemporary Conflict, Naval Post Graduate School (July 2004), 4.

<sup>20</sup> Tahir, “Iranian Involvement in Afghanistan,”

Iran's strategy toward Iraq closely parallels their strategy toward Afghanistan. Iran maintains strong alliances in the Shiia dominated south of Iraq as well as in the northern stronghold of Kurdistan. However, Iranian support extends far beyond mere regional leadership; the Iranian government also maintains strong associations with Prime Minister Nouri al-Maliki and other senior Iraqi government officials. The Iranians project influence and support in Iraq through a wide variety of mechanisms, from the rebuilding of infrastructure and mosques, to political participation by the al Dawa party, to the Supreme Council for Islamic Revolution in Iraq.<sup>21</sup> Without this support, Iraq's reconstruction—which has been defended and secured by coalition forces—would not have been as successful.

More clandestinely, Iran also exerts its influence by assisting both Shiia factions, and Sunni terrorist organizations, such as al Qaeda.<sup>22</sup> Some speculate that Iran's primary interest in Iraq is providing a unique opportunity to counter U.S. efforts and thwart America's goals. Moreover, Iran could conceivably retaliate directly against U.S. troops and interests if the United States took military action against the Iranian nuclear program.<sup>23</sup> These potential threats to U.S. interests have limited effectiveness. Nonetheless, Iranian influence in both Iraq and Afghanistan has provided a greater measure of security against reprisal from Iran's bordering neighbors.

### **Iranian Arab Tensions**

Tensions between the Arab states and Iran are the result of thousands of years of religious and cultural differences. Iran's interaction with its Arab neighbors is a combination of three principal views: first, how Iran views its past prominence in the region; second, how Iran views

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<sup>21</sup> Joseph Felter, and Brian Fishman, "Iranian Strategy in Iraq Politics and "Other Means," Combating Terrorism Center at West Point (October 13, 2008)

<sup>22</sup> U.S. Department of Defense, *Report to Congress on the Situation in Iraq* (Washington, DC: Office of Public Communications, Assistant Secretary of Defense for Public Communications, September 11, 2007)

<sup>23</sup> Takeyh, *Hidden Iran*, 184.

its standing as one of the two poles in the (according to their view, bipolar) Islamic world; and third, how Iran views its current security posture in the region.

### **Iran's Prominence**

Iran's geographic position in the region provides a variety of benefits. Much of its western border accounts for roughly half of the Persian Gulf coast, and therefore Iran is able to control the Strait of Hormuz. Due to Iran's strategic location the Persian people feel that they are the rightful power, the rightful protector of the region. Between 1969 and 1974, the Shah refused to cede the Iranian right to navigate the Arvand river that divides Iran and Iraq. In a show of force, Iranian naval vessels laid claim to this waterway, eventually forcing Saddam Hussein to meet the Shah in Algeria in March 1975 to sign the Algiers Accord.<sup>24</sup> In 1973, the Shah sent troops to Oman to assist the sultanate contain a Communist led rebellion in southern Oman. Iranian troops decisively defeated the rebellion, supported by both southern Yemen and China. The Chinese troops withdrew from the conflict following the establishment of diplomatic relations between China and Iran.<sup>25</sup> Iran, along with Saudi Arabia, was one of the so-called "Twin Pillars" of U.S. policy in the Gulf through the 1970s.<sup>26</sup> This assertion of Iranian power continued through the 1980s following the revolution, with Iran pursuing security agreements with the Gulf Arab states.

However, Arab countries have signed agreements with the United States, not Iran. The Gulf States also sided with the United States against Iran in the Iran-Iraq war. In the wake of the war, Iran found itself in a very vulnerable strategic position, despite its attempts to assert its image as a dominant nation with an unconquerable warrior spirit. Iran's hostile policies toward the US grew out of this position.

### **Iran as one of the Twin Pillars of Islam**

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<sup>24</sup> Mafinezam and Mehrabi, *Iran and Its Place Among Nations*, 32.

<sup>25</sup> Ibid.

<sup>26</sup> Tarock, *Iran's Foreign Policy Since 1990: Pragmatism Supersedes Islamic Ideology*, 11.

Iran is the leader of Shiia Islam, the counterpart to Saudi Arabia as the leader of Sunni Islam. The Shiia are the distinct minority in the Islamic world, making up about thirteen percent of all Muslims. Within Iran itself, eighty-nine percent of the population is Shiia, with nine percent being Sunni. Iranians participate in the Hajj, and making the pilgrimage to Mecca. Although Shiia factions have sought to instigate violence during the Hajj, the Iranians have made conciliatory moves toward the Saudi government, by making public statements against such acts. Iran has made these acts of contrition in order to improve relations with the Arab states in hopes of improving its security situation.

### **Iranian Uneasiness: National Security**

Since 2001, Iran's security situation has never looked more tenuous. Iran finds itself hemmed in on its eastern and western borders by troops from the United States and its allies. Iran has no alliances in the Persian Gulf to bolster its defense. Further, Iran is in the unenviable position of having the world's third largest oil reserve, but lacking the capacity to refine enough oil into gasoline to keep up with the demand of the Iranian population. This places Iran in a difficult economic situation of reliance on trade with other countries in order to provide for its people, and having to spend large sums of money to do so. To exacerbate its situation, although Iran is a founding member of OPEC, it has great difficulty influencing other members of the oil-producing cartel.

The issue of national security is further complicated in light of the destruction caused by the Iran-Iraq war. When considering Iran's current economic issues, coupled with the loss of nearly a generation of men in the Iran-Iraq war and the decimation of the Iranian military, Iran's national security can be characterized as dire. Iran recognizes its vulnerability and is seeking some type of recognized alliance. As the Arab states in the region have continued their own Sunni-centric alliances sided with the United States, Iran is left isolated and vulnerable.

Iran's current isolation in the region is the result of the ways it has pursued its national

security. Iran's use of terrorism as a policy tool, its foment of discord in the West Bank and Gaza Strip to undermine the Middle East peace process, its assassination of opposition leaders on foreign soil to secure its own government, and its shift from a theocracy with democratic tendencies to a military dictatorship has made Iran too difficult to deal with in the eyes of many countries. The more Iran has struggled to solidify its security, the more it has driven other countries away. Iran's goals have since shifted away from exporting the Islamic revolution toward securing the Iranian state itself.

### **Iranian Security: Ends, Ways and Means**

As a strategic end, Iran must find a way to secure its borders from external threats. It finds itself increasingly isolated and hemmed in, with the U.S. acting as the primary force organizing collective action to restrain Iran. Iran's policies (or strategies) that grow from this concern for security include the export of the revolution, the quest for greater self-sufficiency in energy production, the establishment of strategic alliances to negate international sanctions, and the securing of vulnerable borders through influence in Iraq and Afghanistan.

We must strive to export our Revolution throughout the world, and must abandon all idea of not doing so, for not only does Islam refuse to recognize any difference between muslim countries, it is the champion of all oppressed people.<sup>27</sup> –Ayatollah Khomeini

In the years immediately following the 1979 Revolution, Iran's goals centered on a central theme: promote the Iranian Islamic revolution to other countries. Iran appears to be continuing Ayatollah Khomeini's guidance of expanding the Islamic revolution, although in a broad sense. Iranian revolutionary militancy, however, has diminished as Iran's principal national interest and has moved to a more pressing need for security from external threats. But the mantra of exporting the revolution remains, albeit as a justification for many of their programs that are

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<sup>27</sup> Bruce Hoffman, "Recent Trends and Future Prospects of Iranian Sponsored International Terrorism," (Washington, DC: The Rand Corp, March 1990), 12.

actually designed to further Iran's security interests.

The Iranian leadership today is very pragmatic in its policy of exporting revolution. Senior advisors to Ayatollah Khomeini, such as Muhammad Jarad Larijani, have publicly recognized that "Iran's experience is not possible to be duplicated in Iraq."<sup>28</sup> Iran's interests in Iraq and Afghanistan remain, but fostering fundamentalist revolution there and elsewhere in the Middle East appear less and less practical. Iran's efforts in both Iraq and Afghanistan are characterized by a political-military approach. This approach touches the needs of the people for economic development, improved infrastructure, and reconstruction and protection of religious sites. However, Iran also provides weapons and training to the Shiia militias in Iraq and the Taliban in Afghanistan, in order to secure areas of its borders with both countries.<sup>29</sup> This is reflective of a near-abroad approach to strategic alliances. Iran has also made alliances to increase its own energy production. Iran's quest for energy production consists of two parallel efforts: first, to obtain greater oil and gasoline production capabilities, and second, to continue their aim of obtaining a nuclear reactor. Iran's need for greater energy has resulted in significant investments in infrastructure in Africa, oil contracts with China, Malaysia and other countries, and contracts with Russia for a light water reactor.<sup>30</sup>

Iran's sponsorship of terrorism is the primary tool (strategy) that Iran has employed since its own successful revolution. According to Yonah Alexander and Milton Hoenig, "a state resorts to terrorism after calculating that clandestinely directed political violence can most efficiently achieve its policy goals."<sup>31</sup> Iran's sponsorship of terrorism manifests itself visibly in their support

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<sup>28</sup> Takeyh, *Hidden Iran*, 180.

<sup>29</sup> For more discussion on this, see page 37 and page 58.

<sup>30</sup> Central Intelligence Agency, "Unclassified Report to Congress on the Acquisition of Technology relating to Weapons of Mass Destruction and Advanced Conventional Munitions," CIA World Fact Book, [http://www.foia.cia.gov/browse\\_docs.asp](http://www.foia.cia.gov/browse_docs.asp) (accessed October 11, 2009).

<sup>31</sup> Alexander and Hoenig, *The New Iranian Leadership: Ahmadinejad, Terrorism, Nuclear Ambition and the Middle East*, 49.

to Hamas and Hezbollah as well as their efforts to support al Shabaab and al Qaeda. The terrorism directed against Israel corresponds with a strategy in which Iran can coordinate Hezbollah's activities to compliment those of Hamas, forcing the Israelis to fight in two directions while orchestrating both internal and external threats to Israel. These clandestinely directed threats to Israel support Iran's strategic end-state for security.

Iran invests heavily in Iraq and Afghanistan through both legitimate aid as well as covert military support to terrorist organizations in both countries. Since the 1979 Revolution, Iran has maintained a robust paramilitary capability in both its intelligence services and in the Iranian Revolutionary Guard Corps in order to support its use of terrorism to achieve strategic goals.

Iran is the pre-eminent world leader in the sponsorship of terrorism. Iran's diversified programs of terrorism have allowed Iran's reach and effectiveness to spread across the globe. The programs sponsored by Iran, from directing the activities of organizations, providing weapons and funding, or providing national assets and safe haven, are nearly impossible to stop and often cannot be traced directly back to Iran itself. Iran's sponsorship of terrorism has become so widespread and sophisticated that it has outgrown any single country's ability to deal with it effectively.

### **U.S.-Iranian Policy: Isolation and Containment**

U.S.-Iranian relations have not changed since 1979. They are characterized by an overt policy of isolation and containment, while attempting discussions and diplomacy through secret engagements and back-channel deals. The largest shifts in U.S. policy toward Iran have come under the Presidencies of George W. Bush, and Barack Obama.

On 23 January 1979, the eve of Iran's revolution, President Jimmy Carter presented his State of the Union speech. His only mention of Iran was in a reference to "working for peaceful

solutions to dangerous conflicts.”<sup>32</sup> One year later, President Carter again addressed the nation in a State of the Union speech, this time stating “this is a time of challenge to our interests and our values.”<sup>33</sup> President Carter eventually declared a State of Emergency with Iran, banned Iranian oil imports, and seized Iranian property in the United States. Many of these sanctions have been in effect ever since.

Traditionally, the U.S. has opposed non-democratic states that suppress individual freedom, restrict basic human rights, and threaten peace and security. Since 1979, Iran’s militant theocratic leadership has challenged the ideals of the United States. President Reagan’s policy can be characterized as duplicitous in that the United States supported both Iran and Iraq in the Iran-Iraq war as well as lifting the ban on the purchase of oil from Iran in order to stock the Strategic Oil Reserve. In January 1984, President Reagan declared Iran a state sponsor of terror. However, on 4 March 1987, President Reagan stated in a speech on the Iran-Contra affair “I undertook the original Iran initiative in order to develop relations with those who might assume leadership in a post Khomeini government.”<sup>34</sup> President Reagan re-imposed the ban on Iranian oil in 1987.

President George H.W. Bush had a limited role in the course of U.S. policy on Iran, largely adding symbolic strength to the arms embargo imposed by the United States. President Clinton made the largest steps in steering U.S. policy on Iran through the Iran-Libya Sanctions Act of 1996. This act imposed wide sanctions on Iran, but also imposed third-party sanctions on trade partners of Iran, which large trading blocks like the European Union did not support.

President Clinton did attempt conciliatory gestures toward Iran as well, as exemplified by a speech Secretary of State Madeleine Albright made to the American-Iranian Council in March

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<sup>32</sup> Miller Center.org, *President Carter State of the Union Address*, (January 23, 1979) <http://millercenter.org/scripps/archives/speeches/detail/5533> (accessed March 14, 2010)

<sup>33</sup> Miller Center.org, *President Carter State of the Union Address*, (January 23, 1980) <http://millercenter.org/scripps/archives/speeches/detail/3404> (accessed March 14, 2010)

<sup>34</sup> Miller Center.org, *President Reagan Speech on Iran-Contra*, (March 4, 1987) <http://millercenter.org/scripps/archives/speeches/detail/3414> (accessed March 14, 2010)

2000. In the speech, Secretary Albright stated that in response to Iran's activities, "America's response has been a policy of isolation and containment. We took Iranian leaders at their word, that they viewed America as an enemy."<sup>35</sup> Secretary Albright went on to remark on regime change, "Moreover, we have no intention or desire to interfere in the country's internal affairs."<sup>36</sup> The Clinton administration's attempt to reach out was acknowledged by Iran in 2003.

The National Security Strategy of 2006 (NSS) is explicit in its promotion of freedom and democracy. The 2006 NSS discusses two pillars that our security is founded on, and uses words like; freedom, justice, and human dignity. The NSS discusses ending tyranny, promoting democracy, and confronting the challenges of our time. Finally, the NSS states, "Many of the problems we face – from the threat of pandemic disease, to proliferation of weapons of mass destruction, to terrorism, to human trafficking, to natural disasters – reach across borders. Effective multinational efforts are essential to solve these problems "...and "that America must continue to lead."<sup>37</sup>

During his State of the Union address on 29 January 2002, President Bush declared Iran to be part of the "Axis of Evil" that included North Korea and Iraq.<sup>38</sup> Although this indicated a much more confrontational approach than previous U.S. policy, it seemed to have some effect. On May 4, 2003 the Iranian government reportedly extended an offer to the Bush administration that has been termed the "Grand Bargain". Iran apparently offered to discuss its nuclear program, their control of Hamas and Hezbollah, and other topics. The Bush administration flatly denied the

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<sup>35</sup> Aghayan.com, *Secretary of State Madeleine K. Albright Remarks Before the American-Iranian Council*, (March 17, 2000) <http://www.aghayan.com/alb031700.htm> (accessed March 14, 2010)

<sup>36</sup> Ibid.

<sup>37</sup> The White House, *The National Security Strategy of the United States of America, March 2006*, (Washington, DC, March 2006) <http://georgewbush-whitehouse.archives.gov/nsc/nss/2006/nss2006.pdf> (accessed October 12, 2009)

<sup>38</sup> CNN.com, *Bush State of the Union Address*, (January 29, 2002) <http://archives.cnn.com/2002/allpolitics/01/29/bush.speech.txt/> (accessed March 27, 2010)

offer with no attempt made to begin negotiations with Iran.<sup>39</sup> The door to potential negotiations between Iran and the United States was closed in July 2008 when reporter Seymour Hersh broke a story reporting that the Bush administration had authorized covert action against Iran.<sup>40</sup>

President Obama took office in January 2009 and made a speech directly to the people of Iran in which he offered a new beginning. He stated, “My administration is now committed to diplomacy that addresses the full range of issues before us.”<sup>41</sup> Since this speech, the United States has joined the P-5+1 talks in Geneva with Iran, the highest level negotiations the U.S. has been involved in with Iran in thirty years.<sup>42</sup> During these negotiations with Iran, the United States has continued to toughen its legislation against Iran by strengthening existing sanctions, targeting sanctions toward specific Iranian state-owned businesses, freezing Iranian assets in the United States, and continuing to apply diplomatic pressure on Iran.

Although U.S. policy toward Iran has not been clearly defined for the last thirty years, the current administration reflects traditional U.S. approaches to Iran. Like other administrations, it has set forth stated goals, used diplomacy, enforced existing sanctions on Iran, all the while believing these efforts will help to resolve differences in the U.S.-Iran relationship. The U.S. continues its policy of isolation and containment through sanctions even as the Obama administration has engaged in open collective negotiations. As in the past, however, Iran has not changed its ways. A far more aggressive diplomatic-military approach is necessary if Iran is to be convinced to change its behavior and abandon terrorism as the primary means of maintaining

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<sup>39</sup> Meir Javedanfar, “4 May 2003 Iranian Proposal of Grand Bargain,” *Guardian.co.uk*, (March 3, 2009) <http://www.guardian.co.uk/commentisfree/2009/mar/03/iran-nuclear-weapons> (accessed March 14, 2010)

<sup>40</sup> Seymour M. Hersh, “Preparing the Battlefield,” *The New Yorker.com*, (July 7, 2008) [http://www.newyorker.com/reporting/2008/07/07/080707fa\\_fact\\_hersh](http://www.newyorker.com/reporting/2008/07/07/080707fa_fact_hersh) (accessed March 14, 2010)

<sup>41</sup> BBC.com, “Obama Offers Iran New Beginning,” (March 20, 2009) <http://news.bbc.uk/2/hi/7954211.stm> (accessed March 14, 2010)

<sup>42</sup> Secretary of State Hillary Clinton, *Speech at U.S.-Islamic World Forum*, (February 14, 2010) <http://www.uspolicy.be/article.asp?ID+7fc144e3-5137-4117-b024-C9b76714e1fb> (accessed March 14, 2010)

its security.

## CHAPTER 2

### IRANIAN SPONSORSHIP OF TERRORISM: Organizations and Networks

State sponsorship of terrorism, according to Alexander and Hoenig in the book *The New Iranian Leadership: Ahmadinajad, Terrorism, Nuclear Ambition and the Middle East*, has three components—the direction of activities of a person or organization; the supply of funding or armament; and the use of national assets or territory for training or intelligence.<sup>1</sup> Iran engages heavily in all of these activities in order to implement its policy objectives. As early as 1997, “Former Iranian President Abol Hassan Bani Sadr [stated that] there are currently seventeen organizations in Tehran that are directly involved in one form of terrorism or another, most of it abroad.”<sup>2</sup> There is little doubt that Iran’s policy has not changed significantly.

Iran’s sponsorship of terrorism reached such heights following September 11, 2001 that Congress saw fit to hold hearings and bolster legislation that would aid the President in countering the Iranian threat. During a hearing at the House of Representatives in 2005, Ms. Ileana Ros-Lehtinen, the ranking Republican on the House Foreign Affairs Committee stated, “the Iranian regime has increasingly viewed terrorism as a tool for legitimate means to further its ideological and strategic aims.”<sup>3</sup> Iran’s use of terrorism as a strategy to further its policies is not a new development, it dates back to the Iranian Revolution and the establishment of the Iranian Revolutionary Guards Corps (IRGC).

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<sup>1</sup> Yonah Alexander and Milton Hoenig, *The New Iranian Leadership: Ahmadinajad, Terrorism, Nuclear Ambition and the Middle East* (Connecticut: Praeger Security International, 2008), 52.

<sup>2</sup> Al Venter, *Iran Still Exporting Terrorism to Spread Its Islamic Vision* Edition 1997, Volume 009, Issue 011 (Jane’s Intelligence Review: November 1, 1997) [http://www8.janes.com/jdic/jtic/documentview.do?docID=/content1/janesdata/mags/jir/history/jir97/jir00054.htm@current&pageselectd=alljanes&keyword=iran&backpath=http://jtic.janes.com/jdic/jtic/search&prod\\_name=&activenav=http://www8janes.com/jdic/jtic](http://www8.janes.com/jdic/jtic/documentview.do?docID=/content1/janesdata/mags/jir/history/jir97/jir00054.htm@current&pageselectd=alljanes&keyword=iran&backpath=http://jtic.janes.com/jdic/jtic/search&prod_name=&activenav=http://www8janes.com/jdic/jtic) (accessed October 14, 2009)

<sup>3</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; and the Subcommittee on International Terrorism and Non-Proliferation of the Committee on International Relations House of Representatives, *Iran: A quarter Century of State Sponsored Terror*, 100<sup>th</sup> Cong., 2005, 1.

## **The IRGC**

Almost immediately following the revolution in 1979, Iran organized the Iranian Revolutionary Guard Corps with 6,000 members. In November 1980, Ayatollah Khomeini named Javad Mansuri as the Deputy Foreign Minister in charge of “revolution exportation affairs”, Javad Mansuri was the founder and first commander of the Iranian Revolutionary Guards Corps.<sup>4</sup> By 1985, that number had increased to 250,000.<sup>5</sup> Today, the IRGC, and beneath it the Qods force, has become the primary organization through which Iran sponsors and exports terrorism.

The IRGC is a paramilitary force that has uses both internally and externally. The IRGC has elements of an Air Force, and a Navy and it controls Iran’s ballistic missiles and nuclear facilities as well as internal security elements. The Qods force, which is the covert action arm of the IRGC outside Iran, organizes, trains, and equips terrorist groups. Rarely does a Qods force member participate directly in an operation. Rather, they merely provide the essential direction on behalf of their leaders in Iran. Today, specific United Nations and United States sanctions name the IRGC (and specific members and leaders of the IRGC) as terrorists.<sup>6</sup>

## **Political Assassination as a Tool**

When the revolution was not much more than a year old, Iran carried out the assassination of Ali Akbar Tabatabai, an outspoken opponent of Ayatollah Khomeini. Tabatabai had served in the Iranian Embassy in Washington D.C. as a press attaché before the revolution.<sup>7</sup> In a fashion that

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<sup>4</sup> Yossef Bodansky, *Target America: Terrorism in the U.S. Today* (New York: Shapolsky Publishers inc, 1993), <http://www.brasscheck.com/911/chapter1.html> (accessed October 10, 2009)

<sup>5</sup> Alvin H. Bernstein, *In the U.S. War on Terrorism, Iran is the Enemy* (September 3, 1985) [http://www.policyarchive.org/bitstream/handle/10207/9219/87480\\_1.pdf?sequence=1](http://www.policyarchive.org/bitstream/handle/10207/9219/87480_1.pdf?sequence=1) (accessed September 29, 2009)

<sup>6</sup> Ashley Lohmann, and Maseh Zarif, *Iran Policy: Sanctioned Individuals and Entities* (July 21, 2009) <http://www.irantracker.org/us-policy-sanctioned-individuals-entities> (accessed October 10, 2009)

<sup>7</sup> Ira Silverman, “An American Terrorist,” *The New Yorker* (August 5, 2002) <http://iona.ghandchi.com/tabatabai.htm> (accessed November 3, 2009)

would become the trademark of Iranian agents through the years, proxies carried out the operation, ultimately ending with Dawud Salahuddin, an American muslim, murdering Tabatabai.<sup>8</sup>

Dawud Salahuddin prepared for the operation in the Iranian Interest Section of the Algerian Embassy in Washington D.C. The morning of the killing, a friend of Dawud's facilitated his movement to a U.S. Postal Service jeep, and provided him a mailman's uniform. Dawud then made his way to Tabatabai's home, where he shot Tabatabai three times. Dawud escaped to Montreal, flew to Geneva, and ultimately continued on to Tehran, where he reportedly still lives.<sup>9</sup>

The spate of assassinations continued through the early 1990s, and in 1992 Iran's efforts produced not only a serious blow to its exiled opposition, but also brought Iran's use of assassination into full view of the world. On September 17, 1992, the three leading opposition members of the Democratic Party of Iranian Kurdistan, as well as another man, were killed at the Mykonos restaurant in Berlin Germany.<sup>10</sup> While the Iranian and Lebanese assassins escaped back to Iran, German police quickly arrested the local Lebanese accomplices.

After several years of investigations, the German Court found all of the men involved guilty and concluded that there had been direct involvement by the Iranian government. The German authorities went as far as to indict the Iranian Intelligence Minister as being responsible for the attack, although there was no extradition for his trial.<sup>11</sup> Former Iranian President Abol Hassan Bani Sadr stated that Ayatollah Khomeini and Rafsanjani must have sanctioned the murders, because within the framework of Iran's constitution only they can sentence someone to death.<sup>12</sup>

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<sup>8</sup> Silverman, "An American Terrorist,"

<sup>9</sup> Ibid.

<sup>10</sup> "Murder at Mykonos: Anatomy of a Political Assassination," *Iran Human Rights Document Center*, (New Haven, Connecticut: March 2007) <http://www.scribd.com/doc/17774653/-murder-at-mykonos-anatomy-of-a-political-assassination> (accessed November 3, 2009)

<sup>11</sup> Venter, *Iran Still Exporting Terrorism to Spread Its Islamic Vision*.

<sup>12</sup> Ibid.

While the attack at Mykonos was certainly brazen, Iran's efforts would know few bounds.

In 1993 the United Nations, "[urged] Tehran to end political assassinations of their opponents abroad."<sup>13</sup> Iran has used assassination as a tool with which to "silence voices in the exile community," in an effort to grasp and retain power since the revolution.<sup>14</sup> While in Ethiopia in 1995, Islamic Jihad, with recruits from Sudan, attempted to kill Hosni Mubarak, the President of Egypt.<sup>15</sup> Following the attempt, several of the attackers fled to Sudan, and Scandinavia. Mubarak himself blamed Iran for the attempt on his life, and following an investigation by various intelligence services, this seems very likely.<sup>16</sup> Iran's active attempts to silence the voices of dissent through the 1990s resulted in arrest warrants for Iranian agents in Argentina, Switzerland, and Austria as well as the indictments already mentioned.<sup>17</sup>

Although Iran was quite brazen in its early attempts at assassinations, it has become far more adept at plausible deniability through cunning execution. Although the U.N. and the rest of the world's leaders may continue to employ harsh language against Iran, nothing has dissuaded Iran from stamping out opposition across the globe whenever it desires.

### **Providing Safe Haven to Terrorists**

Terrorist organizations such as al Qaeda, Hezbollah, Hamas, (and others) would not be able to function effectively without the safe haven provided by Iran. Iranian facilities and expertise enable the full spectrum of operations presented by terrorist organizations today. Iran has also allowed senior leaders of terrorist organizations to conduct their daily operations from within the country without fear of reprisal. Iran appears willing to allow radicals to take refuge within the

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<sup>13</sup> Alexander and Hoenig, *The New Iranian Leadership: Ahmadinajad, Terrorism, Nuclear Ambition and the Middle East*, 55.

<sup>14</sup> "Murder at Mykonos: Anatomy of a Political Assassination,"

<sup>15</sup> Ronen Bergman, *The Secret War with Iran*, (New York: Free Press, 2008), 218.

<sup>16</sup> Ibid.

<sup>17</sup> "Murder at Mykonos: Anatomy of a Political Assassination,"

safety of its borders, with the only requirement to commit acts of terrorism against a common enemy.

Providing safe havens to terrorist organizations is paramount to Iran's sponsorship of terrorism. If Iran were unwilling or unable to provide safe haven to terrorist organizations, their use of terrorism as a tool to support their policies would be greatly blunted due to the ineffectiveness of the organizations that it sponsors. Safe haven in Iran exists in three major forms: first, in providing locations and training facilities that include cadre; second, in allowing terrorist organizations to reside on Iranian soil without fear of government intervention; and third, as a location from which to launch attacks. Hezbollah's help in running these training facilities is crucial to the overall effort.

### **Facilities and Training**

Of the known training camps in Iran, Manzarieh Park was the first known camp and at the height of its use reportedly had 900-1000 terrorists in training at any one time.<sup>18</sup> According to a former IRGC officer that defected, "In most camps the Sunnis outnumber the Shiites."<sup>19</sup> Iran continued to build the capacity to train terrorists, eventually establishing the Hamadah camp, the Qazvim camp, the Imam Ali camp and the Marvdasht camp. The camps rely heavily on the assistance of Hezbollah trainers as well as experts from North Korea, Vietnam, Bulgaria, and the former East Germany.<sup>20</sup> These camps now conduct the majority of the training in Iran, with the Manzarieh Park camp now used as a point for foreigners to process through before moving to the

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<sup>18</sup> Venter, *Iran Still Exporting Terrorism to Spread Its Islamic Vision*. Bodansky, *Target America: Terrorism in the U.S. Today*.

<sup>19</sup> Farhad Razi, "20 Terrorist Training Camps Uncovered," *Global Politician.com*, (March 1, 2006) <http://www.globalpolitician.com/21639-iran-terror> (accessed February 18, 2010)

<sup>20</sup> William F. Jasper, "No State Sponsors, No Terror," *New American.com*, (August 18, 2009) <http://www.thenewamerican.com/index.php/world-mainmenu-26/asia-mainmenu-33/1670> (accessed October 27, 2009)

other camps.<sup>21</sup>

These camps trained the full spectrum of tasks associated with terrorism. Iranian defector and former Iranian Colonel Ali Vesseghi reported that activities at the Marvdashdt camp focused on graduate work in suicide bombings.<sup>22</sup> Vesseghi stated that the testing at Marvdashdt was primarily an assessment of the effects of various blasts and that they used prisoners condemned to death to carry out this testing.<sup>23</sup> The IRGC reportedly constructed a facility to replicate a western airport on the outskirts of Mashad, at Wakilabad, used to train terrorists.<sup>24</sup>

### **Groups or Organizations Sponsored**

The Iranians could not spread their revolution or sponsor terrorist activities around the world without help. That help typically comes in the form of proxies. Iran initially employed Lebanese Hezbollah (LH) to propagate their revolution. In fact, in the Iranian war of global terror, there has been no greater supporter of Iran than Lebanese Hezbollah. Testimony before Congress in 2005 stated that, “One of the chief instruments for the implementation of these policies has been the terrorist organization, Hezbollah, which, since its inception, has been trained, financed, and supported by the Iranian Revolutionary Guard Corps.”<sup>25</sup>

Building upon the successful LH model, Iran expanded their proxy network with the additions of several other terrorist organizations from Hamas in the West Bank and Gaza, to al Qaeda, and most recently to al Shabaab in Somalia.<sup>26</sup> Without the use of these organizations as proxies in the spread of the revolution, Iran would be unable to implement its strategies. Even with such a large IRGC, Iran needs these organizations to put distance between itself and its

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<sup>21</sup> Venter, *Iran Still Exporting Terrorism to Spread Its Islamic Vision*.

<sup>22</sup> Venter, *Iran Still Exporting Terrorism to Spread Its Islamic Vision*.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 1.

<sup>26</sup> Michael Abraha, “Untitled” Located at Delina.org (May 11, 2009) <http://delina.org/en/news-analysis/170-eritrea-dangerous-iran-and-al-shabaab-connections-> (accessed September 16, 2009)

sponsored activities. Furthermore, it would be nearly impossible for Iran to pursue such a diverse terrorist agenda across the globe if it did not have the help of these organizations.

### **Lebanese Hezbollah**

Since the early 1980s, Lebanese Hezbollah has established a reputation as one of the most successful terrorist organizations in the world. In fact, Deputy Secretary of State Richard Armitage, in testimony to the House of Representatives said, “Hezbollah may be the A-Team of terrorists, and maybe al Qaeda is the B-Team.”<sup>27</sup> Lebanese Hezbollah is the main effort and the most successful aspect of Iran’s strategy of sponsoring terrorism. Hezbollah receives support from Iran in the form of funding, training, safe haven and weapons that has been valued at over eighty million dollars a year.<sup>28</sup> Some estimates of this funding place the worth at one hundred million dollars a year solely to fight Israel.<sup>29</sup> Iran, for its efforts, directs the activities of the most capable and lethal terrorist organization that the world has seen. Lebanese Hezbollah was not always this powerful, however.

Shortly after the revolution, in 1981 Hussein Musavi became the Prime Minister of Iran. Musavi was a fanatical supporter of the Ayatollah and sought to begin the export of the Islamic Revolution. Lebanon was embroiled in civil war at the time. Musavi dispatched two men to Lebanon, destined to transform a small terrorist group named Amal into the organization now known as Hezbollah. These two men were Sheik Sayyid Muhammad Hussein Fadlallah, a Lebanese Shiia cleric educated in Najaf, and Abbas Musavi, the prime minister’s nephew.<sup>30</sup> This direct involvement from the top of the Iranian leadership continues to this day as Iran uses

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<sup>27</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 1.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Bruce Hoffman, “Recent Trends and Future Prospects of Iranian Sponsored International Terrorism,” (Washington, DC: The Rand Corp, March 1990), 18.

Hezbollah across the globe to do its bidding.

Hezbollah is quite versatile, making it an effective proxy for Iran. Once Hezbollah was a functioning organization, it began conducting highly successful attacks. Notable among these attacks were the April 1983 bombing of the U.S. Embassy in Beirut that killed more 60 people, the October bombing of the U.S. Marine Barracks in Beirut killing 299 people, the 1985 TWA Flight 847 hijacking, and the 1996 bombing of Khobar towers in Saudi Arabia that killed 19 people. During his testimony to the House of Representatives in 2005, Matthew Levitt, the Director of the Stein Program on Counterterrorism and Intelligence at the Washington Institute for Near East Policy stated, “Hezbollah...was responsible for more American deaths than any other terrorist organization before September 11<sup>th</sup>.”<sup>31</sup> Through Hezbollah, Iran began its global outreach and diversification in the 1990s. Whether Iran foresaw the need to strengthen its position and add stability through this diversification, or whether Iran had an operational need is unclear. Ultimately, Iran working through Hezbollah, achieved both stability and operational capability through this globalization.

Hezbollah’s globalization became starkly evident when, in April 1996, Israel filed a demarche against South Africa for allowing the existence and operation of five Hezbollah training camps. Embarrassed, the African National Congress (ANC), acknowledged the camps existed, and agreed to have them closed.<sup>32</sup> This diplomatic action by Israel followed Hezbollah’s bombing of the Israeli Embassy in Argentina in 1992, and the bombing of the AMIA Jewish Community Center in Buenos Aires in 1994.<sup>33</sup> Hezbollah even attempted to finance its operations from sources within the United States, resulting in an illegal cigarette smuggling ring in

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<sup>31</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 13.

<sup>32</sup> Al Venter, *Untitled* Edition 1997, Volume 009, Issue 011(Janes Publications: November 1, 1997)

<sup>33</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 2.

Charlotte, North Carolina that reported directly to Beirut.<sup>34</sup>

Hezbollah was also responsible for much of the exploitation of the so-called “Blood Diamond” trade from the countries of West Africa for some time. The exploitation of these countries resources in order to finance operations has led to deadly conflicts in the countries of Sierra Leone, Liberia, and Cote d’Ivoire.<sup>35</sup> These actions by Hezbollah also cultivate networks in Africa, which in turn translate into new bases for their operations.

Hezbollah’s most notorious commander, Imad Mughniyeh died in Damascus on 12 February 2008, ending the hunt for one of the greatest terrorist minds the world has known. Mughniyeh was a Lebanese born terrorist, ultimately acting as the liaison between Hezbollah and Syria, Iran, Sudan, and al Qaeda. Mughniyeh’s accomplishments included both the bombings of U.S. facilities in Beirut in 1983 and the hijacking of TWA Flight 847. Additionally, Mughniyeh was responsible for an attack against the French military in Beirut that killed 40 people, the abduction and murder of CIA Station Chief William Buckley in Beirut in 1983, and two other Kuwaiti Air hijackings in 1984 and 1988.<sup>36</sup> Mughniyeh’s contributions to Iran’s strategy live on in South America and the Gaza Strip. Mughniyeh established Hezbollah in the Tri-Border area of South America. This area encompasses Foz de Iguazu in Brazil, Puerto Iguazu in Argentina, and Ciudad de Este in Paraguay. First, he used the area as a sanctuary for training and recruitment. Later he used the area to stage the attacks in Argentina and Buenos Aires. Finally, he established a funding line for Hezbollah tied to drug trade and organized crime.<sup>37</sup>

### **Tri-Border Area Ties to Financing**

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<sup>34</sup> Ibid.

<sup>35</sup> House of Representatives, *H.CON.RES.16*, 111<sup>th</sup> Cong., 1<sup>st</sup> Sess., (January 9, 2009): 4. [http://thomas.loc.gov/home/gpoxmlc111/hc16\\_1h.xml](http://thomas.loc.gov/home/gpoxmlc111/hc16_1h.xml) (accessed October 16, 2009)

<sup>36</sup> Vikram Rajakamar, *Assessment of Iman Mughniyeh’s Death* (no date) <http://www.pvtr.org/pdf/globalanalysis/assessment%20/=%20imad%20mughniyeh.pdf> (accessed September 6, 2009)

<sup>37</sup> Bernd Kaussler, *No Title* Jamestown Foundation.org (November 7, 2008) [http://www.jamestown.org/programs/gta/single/?tx\\_ttnews%5Btt\\_news%5D=34110&tx\\_ttnews%5BbackPid%5D=167&no\\_cache=1](http://www.jamestown.org/programs/gta/single/?tx_ttnews%5Btt_news%5D=34110&tx_ttnews%5BbackPid%5D=167&no_cache=1) (accessed September 16, 2009)

The Tri-Border Area (TBA) in South America is the area between Foz de Iguazu' in Brazil, Puerto Iguazu' in Argentina and Ciudad de Este' in Paraguay, and has become an area of strong support for Hezbollah and ultimately Iran, in South America.<sup>38</sup> The TBA holds a population estimated at 700,000, and of that, 30,000 are of Arab or Lebanese descent.<sup>39</sup> Because the TBA is such a diverse area and spans three countries, it is a free trade area, thus allowing ease of movement across borders.

The ease of movement, combined with strong local support allowed Hezbollah to move to the TBA for sanctuary as early as 1989.<sup>40</sup> Ultimately, their efforts through organized crime and drug trafficking yielded a strong base of operations. It was from this secure base that Hezbollah conducted the bombings of the Israeli Embassy and Jewish center in Argentina in 1992 and 1994 respectively.<sup>41</sup> Brazilian Federal Police discovered Marwan al Safadi, a Lebanese explosives expert, living in the TBA in 1996.<sup>42</sup> Safadi was also one of the participants in the 1993 World Trade Center bombing. His presence in the TBA indicated how well developed the area had become for harboring terrorists.

Recent efforts by the law enforcement agencies of South America have yielded hard won success. In 2005, Paraguay passed an intelligence report to the U.S. claiming that Hezbollah and Hamas were receiving \$20 million a year from transfers originating in the TBA.<sup>43</sup> Nearly concurrently, Robert Morgenthau, a Manhattan New York district attorney, had tracked what he believed to be \$19 billion, in the period 2003 to 2006, from the TBA through the hawala system

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<sup>38</sup> Benedetta Berti, "Reassessing the Transnational Terrorism – Criminal Link in South America's Tri-border Area," *The Jamestown Foundation* (September 22, 2008) [http://www.jamestown.org/programs/gta/single/?tx\\_ttnews%5btt\\_news%5d=5172&tx\\_ttnews%5bbackpid%5d=167&no\\_cache=1](http://www.jamestown.org/programs/gta/single/?tx_ttnews%5btt_news%5d=5172&tx_ttnews%5bbackpid%5d=167&no_cache=1) (accessed September 16, 2009)

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Kaussler, *No Title*.

<sup>42</sup> Berti, "Reassessing the Transnational Terrorism – Criminal Link in South America's Tri-border Area,".

<sup>43</sup> Ibid.

and money laundering organizations.<sup>44</sup> Even though Morgenthau could not tie any of this funding directly to terrorism, it is quite a telling figure. Additionally, in June 2005, an effort by both Colombia and Ecuador resulted in the arrest of a drug ring accused of sending seventy percent of its proceeds to Hezbollah.<sup>45</sup> This drug ring included persons from Lebanon, Syria, Algeria, and Nigeria.<sup>46</sup>

Colombia has also seen Lebanese Hezbollah involvement. Colombian police arrested Shakri Mahmud Harb along with one hundred thirty suspects on 23 October 2008, breaking a major drug ring. According to Colombian police, the profits of the drug sales from this group went to Hezbollah.<sup>47</sup> A Hawala type system existed in South America, making it difficult to estimate exactly how much money the ring sent to Hezbollah.

Criminals and terrorists favor informal remittance systems, causing systems such as hawalas to receive a greater deal of attention from terrorist threat financing organizations world-wide. With time and the right amount of collaboration these systems will be well known, and terrorist financing may finally be countered effectively.

### **Hamas**

Hamas was founded in December 1987, and although a Sunni organization, it immediately found sponsorship from Iran. Iran provides Hamas with weapons, equipment, and money, as well as training and expertise. Iran also provides a safe haven for Hamas members and leaders to train, rest, and plan in both Iran and Lebanon, and sees to it that experts are provided to facilitate training. This expertise included Imad Mughniyeh himself. According to a Clinton

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<sup>44</sup> Ibid.

<sup>45</sup> Chris Zambelis, "Mystery Surrounds Alleged Hezbollah Links to Drug Arrests in Curacao," *The Jamestown Foundation* (June 25, 2009) [http://www.jamestown.org/programs/gta/single/?tx\\_ttnews%5btt\\_news%5d=35183&tx\\_ttnews%5bbackpid%5d=412&no\\_cache=1](http://www.jamestown.org/programs/gta/single/?tx_ttnews%5btt_news%5d=35183&tx_ttnews%5bbackpid%5d=412&no_cache=1) (accessed September 16, 2009)

<sup>46</sup> Ibid.

<sup>47</sup> Ibid; Kaussler, *No Title*.

administration official, “Mughniyeh got orders from Tehran to work with Hamas.”<sup>48</sup> This support and direction is coordinated through the Iranian embassy in Damascus, Syria, where it has been evident that Hamas leaders have conducted meetings with Iranian intelligence agents.<sup>49</sup> Unlike Iran’s control of Hezbollah’s operations, Iran does not attempt control over Hamas’ operations, because Hamas focuses its efforts solely on Israel. Ultimately, though, for Hamas to fight Israel effectively Iran must supply it with the tools to do so.

Iran spends a substantial amount of time trying to infiltrate weapons into the Gaza strip. This takes place primarily via a sea route either directly to Gaza or to an offloading point in Eritrea or Sudan, where the weapons then take an overland route to the Sinai and then into the Rafa tunnels leading into Gaza. Hamas not only receives weapons; it also receives Iranian financial support.

The amount of money that Hamas receives from Iran is difficult to track and determine. During the period of 1991-1992, Hamas received ten million dollars from the Saudi government.<sup>50</sup> While Hamas received a great deal of money from charities during the 1990s, much of this charitable funding has dried up due to the freezing of assets since September 11, 2001.<sup>51</sup> In 1997, reports indicate that since 1991 Hamas had received twenty million dollars a year from Iran.<sup>52</sup> In February 1999, Palestinian police discovered documents that indicated that

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<sup>48</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 1.

<sup>49</sup> Trifin J. Roule, “Post 911 Financial Freeze Dries Up Hamas Funding,” *Jane’s Intelligence Review* (April 19, 2002), 2.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir2002/jir00213.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir2002/jir00213.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC)  
(accessed October 16, 2009)

<sup>50</sup> Paul Wilkinson, “Hamas—An Assessment,” *Janes Intelligence Review* (July 1, 1993), 1.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir93/jir0082.htm@current&pageSelected=allJanes&keyword=Iranian%20funding%20to%20Hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir93/jir0082.htm@current&pageSelected=allJanes&keyword=Iranian%20funding%20to%20Hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC)  
(accessed October 16, 2009)

<sup>51</sup> Roule, “Post 911 Financial Freeze Dries Up Hamas Funding,” 1.

<sup>52</sup> Venter, *Iran Still Exporting Terrorism to Spread Its Islamic Vision*.

the Iranian intelligence service had transferred thirty five million dollars to Hamas.<sup>53</sup>

### **Hezbollah and Hamas: A Winning Combination for Iran**

Iran's use of both Hezbollah and Hamas to engage Israel aligns with several parts of the Iranian strategy to threaten Israel indirectly or attack Israel directly thorough surrogates, if necessary. Iran's strategy is intended to keep Israel occupied with the nearby external threat from Lebanon and internal threat from Hamas in Gaza and not allowing Israel to focus pressure on Iran.

This sponsorship of Hamas and Hezbollah also supports the Iranian goal of exporting its revolution. Concerning Hamas, this support by Iran should be viewed in a broad sense rather than merely in attempting a Shiite Islamic Revolution in Gaza. While Hamas won the election over Fatah in the Gaza Strip, Hamas does not control its fate. Nor has Hamas become a recognized political party. However, it does control much of the infrastructure in Gaza and can therefore, serve Iranian interests and goals. While Hamas' success is limited to Gaza, Iran has seen much more success in supporting Hezbollah.

In the case of Hezbollah, there has been clear success in the ability of the organization to garner support and to parlay this success into political influence. Hezbollah first secured eight seats in Lebanon's parliament in 1992. Now Hezbollah controls fourteen parliamentary seats, as well as well as 11 of 30 seats in the Lebanese cabinet.<sup>54</sup>

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<sup>53</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 1.

<sup>54</sup> "Hizbullah," *Jane's World Insurgency and Terrorism*" (August 29, 2009), 12.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/binder/jwit/jwit0296.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/binder/jwit/jwit0296.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC) (accessed October 16, 2009)

### The al Qaeda Connection

Although there is no proof currently that Iran provided expertise to al Qaeda in the preparation of the 9/11 terrorists, what is known, (as cited in the 9/11 Commission Report) is that between October 2000 and February 2001, eight to ten of the fourteen of the 9/11 hijackers traveled into or out of Iran.<sup>55</sup> This relationship between al Qaeda and Iran was founded as early as the 1990s when Hezbollah's Imad Mughniyeh directed some of al Qaeda's training in Sudan, Lebanon, and even in Iran.<sup>56</sup> Besides the hijackers, senior al Qaeda members have traveled to Iran as well.

Ramzi Binalshibh, a senior planner for al Qaeda in the 9/11 attacks, traveled to Iran several times during the planning phase of the 9/11 hijackings. Binalshibh then traveled to Iran from Germany just prior to the execution of the attacks. This placed him in Iran during crucial times of the 9/11 operation.<sup>57</sup> Although no hard evidence exists proving that Iran participated in the training of the hijackers, there is a strong circumstantial case to show that Iran was complicit in the attacks of 9/11.<sup>58</sup> Other senior al Qaeda leaders, such as Saif al Adel, remain in Iran today.<sup>59</sup> It seems clear that al Qaeda and Iran have entered into a convenient partnership that has allowed al Qaeda to increase its effectiveness while simultaneously serving Iran's strategic goals.

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<sup>55</sup> "The 9/11 Commission Report," (Washington, D.C.: The National Commission on Terrorist Attacks upon the United States, July 22, 2004), 240.

<sup>56</sup> Thomas Joscelyn, "The New Know-Nothings," *The Claremont Institute*, (December 1, 2006) [http://www.claremont.org/publications/pubid.620/pub\\_detail.asp](http://www.claremont.org/publications/pubid.620/pub_detail.asp) (accessed October 29, 2009)

<sup>57</sup> Thomas Joscelyn, interviewed by Jamie Galzov, posted at FROTHPAGEMAG.com, September 28, 2007. <http://97.74.65.51/readarticle.aspx?artid=28253> (accessed October 29, 2009)

<sup>58</sup> Yossef Bodansky, "Iran and September 11, 2001: Commission Findings Confirm 1993," posted at the Azadegan Foundation, (July 26, 2004) <http://azadeganiran.com/Iran911.asp> (accessed October 29, 2009)

<sup>59</sup> Saif al Adel is the third in command of al Qaeda, behind Zawahiri, and currently held in Iran. The U.S. has a reward posted for Adel's arrest in connection with his roles in the 1998 Embassy bombings, training the hijackers of the 9/11 attacks, and as an unindicted co-conspirator in the *USS Cole* bombing. Although the Iranians state that he is under house arrest, this does not deter Adel from conducting his business as the director of al Qaeda operations. Contrary to Iranian statements of not supporting al Qaeda, they have not produced al Adel, and it is not likely that they will. "Saif al Adel," *United States Military Academy Countering Terrorism Center*, p. 124-125. <http://www.ctc.usma.edu/aq/pdf/Saif.pdf> (accessed November 23, 2009)

### **The Horn of Africa and al Shabaab**

Iran also pursues its strategic goals through its support of both state and non-state actors in Africa. The continent of Africa has over 500,000,000 Muslims, primarily concentrated in the north and west of the continent. Additionally Islam is the fastest growing religion on the continent, with the majority of African Muslims are Sunni.<sup>60</sup> This population has been the target of al Qaeda's expansion into Africa as well. It would appear that Iran is taking advantage of its ability to provide weapons and funding that al Qaeda cannot. David Shinn, the former Ambassador to Ethiopia, noted in his testimony to Congress in March 2009 that "Iran is taking a growing interest in Africa generally, and the Horn in particular. Iran's goal is not clear, but there are concerns that Iran is primarily interested in propagating its fundamentalist beliefs in the region."<sup>61</sup>

Iran's interest in the Horn of Africa has been evident for years in the type and amount of weapons found in the markets of Mogadishu. Iran has supplied insurgents in Somalia with SA-7 and SA-18 anti-aircraft missiles as well as AT-3 Sagger anti-tank guided missiles, not to mention a wide variety of small arms. In 2009, the Transitional Federal Government (TFG) of Somalia accused President Afewerki of Eritrea of sending two planes loaded with weapons to Somalia in violation of the UN arms embargo on Somalia. The TFG stated that these flights were in the service of Iran.<sup>62</sup> The Eritrean government also denies providing basing to Iranian naval vessels.<sup>63</sup>

Iran's strategy in Africa appears to be the pursuit of funding, strategic alliances, and the

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<sup>60</sup> House of Representatives, *H.CON.RES.16*, 111<sup>th</sup> Cong., 1<sup>st</sup> Sess., (January 9, 2009): 4. [http://thomas.loc.gov/home/gpoxmlc111/hc16\\_ih.xml](http://thomas.loc.gov/home/gpoxmlc111/hc16_ih.xml) (accessed October 16, 2009)

<sup>61</sup> House of Representatives Hearing Before the Subcommittee on State and Foreign Operations Committee on Appropriations, *Horn of Africa: Priorities and Recommendations*, (March 12, 2009), 3. [http://appropriations.house.gov/Witness\\_testimony/SFOPS/David\\_Shinn\\_03\\_12\\_09.pdf](http://appropriations.house.gov/Witness_testimony/SFOPS/David_Shinn_03_12_09.pdf)

<sup>62</sup> Abraha, "Untitled".

<sup>63</sup> Uzi Mahnaimi, "Untitled" Located at Delina.org (April 18, 2009) <http://delina.org/en/news/138-israelis-warn-of-eritrea-flashpoint> (accessed September 16, 2009)

export of its revolution to Somalia through al Shabaab. Iran's efforts to expand into Somalia and the Horn of Africa also appear to serve as a counter to the spread of al Qaeda as a Sunni power.

Al Shabaab is a Sunni organization in Somalia that has its roots in both the Islamic Union, and the more recent Islamic Courts Union (ICU). While the Islamic Union was a group of more educated Somalis with a focus on bringing Islamic rule to Somalia, the Islamic Courts Union had a broader view. The Islamic Courts Union had a goal of bringing Islamic rule to Somalia and Ethiopia. The Islamic Union had made tenuous ties to al Qaeda, and received limited training prior to fighting UN troops in 1993.<sup>64</sup>

The Islamic Courts Union grew larger and more militarily dominant, and by 2006 had established sixteen training camps in Somalia, ultimately threatening the Transitional Federal Government (TFG).<sup>65</sup> Al Shabaab split off from the ICU lead Alliance for the Reliberation of Somalia (ARS), and began attacks on the ARS because the ARS had failed to adopt a global jihad vision. Since 2008, al Shabaab has continued to grow in popularity and power, with many foreigners, including Americans, going to Somalia for training.<sup>66</sup>

Iran's interest in transferring arms to the Horn of Africa extends to Sudan as well as Somalia and Eritrea. Iran transferred \$34 million in arms to Sudan between 2005 and 2008.<sup>67</sup> These arms transfers were in direct violation of UNSCR 1591 that placed an arms embargo on Sudan.<sup>68</sup>

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<sup>64</sup> Daveed Gartenstein-Ross, "The Strategic Challenge of Somalia's Al-Shabaab, Dimensions of Jihad," *MEForum.org*, (Fall 2009) <http://www.meforum.org/2486/somalia-al-shabaab-strategic-challenge> (accessed February 18, 2010)

<sup>65</sup> Ibid.

<sup>66</sup> Ibid.

<sup>67</sup> Stockholm International Peace Research Institute, [http://armstrade.sipri.org/arms\\_trade/values.php](http://armstrade.sipri.org/arms_trade/values.php) (accessed October 25, 2009)

<sup>68</sup> United Nations Security Council, *UNSCR 1591*, S/RES/1591, (New York, March 29, 2005) <http://www.globalpolicy.org/components/content/article/168/39689.html> (accessed December 5, 2009)

### **Afghanistan and Iraq—Iran's Bifurcated Approach**

Since 2001, Iran has established covert programs through the IRGC in Afghanistan and Iraq in order to maintain influence on these neighboring governments as well as to target Americans. Iran has shown its resolve in Afghanistan by committing the IRGC to advise and assist commanders of the Northern Alliance shortly after the rise of the Taliban. In 2001, according to intelligence sources, "Iranian Revolutionary Guards Officers were killed in U.S. airstrikes against the Taliban army's 17<sup>th</sup> detachment in the western Afghan province of Herat, which is now ruled by Iran's close ally, Ismail Khan."<sup>69</sup> Unlike the Iranian influence in Iraq, the support to Afghanistan has proven harder to show directly.

This difficulty stems from the fact that Iran has provided weapons to fighters in Afghanistan over the last twenty-five years of war. Over the past two years it was clear that Iran has been actively engaged in supplying weapons to insurgents. The incidence of Explosively Formed Penetrators (EFPs) in Afghanistan began to climb beginning in 2007, and later that year the International Security Assistance Force (ISAF) intercepted two convoys of small arms from Iran.<sup>70</sup> This trend has continued, leading Defense Intelligence Agency Director, LTG Michael Maples to state, "Iran advances its goals through legitimate business and humanitarian efforts along with weapon shipments that include EFPs, rocket propelled grenades, mortars, rockets, small arms ammunition and explosives."<sup>71</sup> This bifurcated approach is not surprising given Iran's desire to maintain influence in Afghanistan and counter U.S. led efforts to stabilize the

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<sup>69</sup> Thomas H. Johnson, "Ismail Khan, Herat, and Iranian Influence," Center for Contemporary Conflict, Naval Post Graduate School (July 2004): 4

<sup>70</sup> "Outside Assistance—Is Iran Supporting the Afghan Insurgency?," *Jane's Intelligence Review* (September 01, 2007): 3.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir2007/jir10231.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir2007/jir10231.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC)  
(accessed October 16, 2009)

<sup>71</sup> U.S. Department of Defense, *Annual Threat Assessment: Statement Before the Committee on Armed Services United States Senate*. (Washington, D.C., March 10, 2009), 8. <http://armed-services.senate.gov/statemnt/2009/March/Maples%2003-10-09.pdf> (accessed October 16, 2009)

country. Keeping the U.S. committed in Afghanistan serves the same purpose of occupying its other enemy Israel.<sup>72</sup>

Iran's covert efforts in Iraq have been very effective and have been the subject of significant action by the Multi-National Forces Iraq (MNF-I). Iran's efforts in Iraq were first revealed in 2006 with an influx of lethal aid to Shia groups, and their activities have steadily increased since that time. The Iranian Ambassador to Iraq, an IRGC Qods force officer, undoubtedly is directing Iranian efforts in the U.S. sectors of Iraq through Shia factions like the Qazali Network and Kata'ib Hizballah. Iranian covert support in Iraq was revealed to the world when several members of the Qazali Network were captured by American forces. During questioning, "Qazali network members had revealed that they "were provided subsequent funding, training on Iranian soil, advanced explosive munitions and technologies as well as run-of-the-mill arms and ammunition, in some cases advice and in some cases even a degree of direction."<sup>73</sup> The use of EFPs from Iran in attacks against Americans rose through 2007. EFP's accounted for only five percent of all IED attacks in Iraq in July 2007, but they accounted for thirty percent of U.S. combat deaths that month.<sup>74</sup>

In 2009, the U.S. Treasury moved to freeze the accounts of Abu Mahdi al-Muhandis, who is allegedly, "an advisor to Qassem Soleimani, the head of the Qods Force."<sup>75</sup> According to

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<sup>72</sup> "Outside Assistance—Is Iran Supporting the Afghan Insurgency?," 1.

<sup>73</sup> "JTIC Briefing: US Targets Iran's Revolutionary Guards," *Jane's Terrorism and Insurgency Center* (August 23, 2007): 2.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jtic/history/jtic2007/jtic5058.htm@current&pageSelected=allJanes&keyword=Iranian%20funding%20to%20 Hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jtic/history/jtic2007/jtic5058.htm@current&pageSelected=allJanes&keyword=Iranian%20funding%20to%20 Hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC) (accessed October 16, 2009).

<sup>74</sup> Ibid.

<sup>75</sup> Alex Vantanka, "US Points Finger at Extremist Iraqi Shia Group," *Jane's Intelligence Weekly* (July 9, 2009): 1.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jiwk/history/jiwk2009/jiwk20194.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20al%20Qaeda&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jiwk/history/jiwk2009/jiwk20194.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20al%20Qaeda&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC) (accessed October 16, 2009).

reports, “Al-Muhandis led networks that moved ammunition and weapons-to include explosively formed penetrators (EFPs)-from Iran to Iraq, distributing them to Shia militias to target U.S. troops.”<sup>76</sup> Muhandis’ involvement ties the Iraqi Kata’ib Hizbullah directly to the Qods force of the IRGC.

### **Staging Attacks from Iran**

Although Iran utilizes terrorism as a tool to achieve its strategies, it uses proxies to conduct terrorist acts around the world to disguise any direct ties between itself and terrorist operations. However, there is a recent example of Iran launching a terrorist operation from within its own borders that, if it had been successful, would have had a far-reaching effect.

Azerbaijan put six men on trial in July 2009 for attempted terrorism, weapons, and drug smuggling.<sup>77</sup> Azerbaijani officials stated that the leader of the six men was from Lebanon, as was one other man. The two men claimed they were trained and working for Hezbollah and al Qaeda. Further, they stated that the IRGC had received them in Iran and facilitated their movement to Azerbaijan.<sup>78</sup> They made several incursions into the Azerbaijan, attempting to recruit local citizens to assist them in their mission to conduct bombings of the Israeli and American Embassies as well as the Russian built and operated Qabala radar station.<sup>79</sup> This is a significant target. The radar station can observe Iranian missile tests and in 2007 Vladimir Putin offered the U.S. its use as a counter to the planned U.S. missile defense shield in Europe. The possibility that Iran was willing to conduct this operation, which would have had a dramatic impact on the Iranian-Russian cooperation, is significant. These actions by Iran show an interesting use of low-

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<sup>76</sup> Ibid.

<sup>77</sup> Anar Valiyev, “Alleged Iranian and Hezbollah Agents on Trial for Targeting Russian Operated Radar Station in Azerbaijan,” *The Jamestown Foundation*, (July 9, 2009), [http://www.jamestown.org/programs/gta/single/?tx\\_ttnews%5bttnnews%5d=35246&tx\\_ttnews%5bbackpid%5d=412&no\\_cache=1](http://www.jamestown.org/programs/gta/single/?tx_ttnews%5bttnnews%5d=35246&tx_ttnews%5bbackpid%5d=412&no_cache=1) (accessed September 16, 2009)

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

level covert terrorism to achieve high-level strategic goals, likely related to testing of ballistic missiles in the summer of 2009.

Iran continues to spread its influence across the globe through its sponsorship of terrorist organizations in the Middle East, Africa, and South America. Iran has befriended al Qaeda and reportedly trains as many Sunni terrorists as Shiite terrorists at their camps in Iran. In order to deny Iran's global influence through terrorism, a comprehensive strategy must counter Iran's ability to finance operations, transfer arms, and provide safe haven to terrorists. Iran conducts these activities through its series of networks in order to support its sponsorship of terrorism.

## CHAPTER 3

### EXAMINING IRANIAN SUPPLY NETWORKS

As the object of an arms embargo Iran gained considerable practical (and costly) experience in the clandestine “gray” market for arms: in establishing networks of purchasing agents, creating cutouts, and front companies, and doctoring end-use papers, in bribery, transshipments and the art of false documentation.<sup>1</sup> – Shahram Chubin

Within fifteen years of its revolution, Iran had become adept at covert weapons shipments both regionally and then globally. Iran’s support for organizations such as Hezbollah and Hamas is only meaningful if these organizations can realize Iran’s intentions. Therefore, Iran must be able to supply these organizations with weapons for the Iranian strategy to be successful. Iran supplies weapons by sea, air and land routes. The Iranians have developed nationally owned companies that support the shipment of arms around the world.

#### **The Legacy of IRISL—Iran’s Use of Sea Routes**

Large quantities of weapons are shipped by sea, offering many advantages. The attraction that Iran has with the sea is twofold. Security at airports and border crossings has continued to increase, while international law has had little effect on sea traffic. Vessels can also carry large quantities of weapons to a destination, increasing cost effectiveness. Iran has established many companies that conduct both legitimate shipping as well as covert arms transfers.

The primary Iranian shipping company is the state-owned Islamic Republic of Iran Shipping Lines, or IRISL, which came under U.S. sanctions in June 2005 under Executive Order (E.O.) 13882. This executive order also sanctioned fifteen other sea and rail companies, as well as the IRGC.<sup>2</sup> As a result Iran was forced to diversify its covert activities to avoid detection.

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<sup>1</sup> Shahram Chubin, *Iran’s National Security Policy* (Washington, D.C.: Carnegie Endowment for International Peace, 1994), 20.

<sup>2</sup> Executive Order no. 13382, *Code of Federal Regulations*, title 31, 540 (June 28, 2005)

The most notorious shipment seized by Israel on its way to Gaza was aboard the *Karine-A*. The Israeli navy seized this load on 3 January 2002, with the Iranian serial numbers still on the weapons.<sup>3</sup> The *Karine-A* was boarded in January 2002 by Israel, under suspicion of trafficking weapons to Hamas. The Israelis seized the vessel in eight minutes, and the ensuing inspection resulted in \$15,000,000 dollars in weapons found.<sup>4</sup> The captain of the vessel was a Palestinian Authority naval officer. An Iraqi citizen had purchased the vessel in Lebanon and flagged the vessel in Tonga.<sup>5</sup> Since the *Karine-A* could not transport the shipment of weapons directly to Gaza, the weapons had been packaged in eighty waterproof containers, that they would throw overboard as the *Karine-A* passed by the coast of Gaza, so that Hamas could recover them. The *Karine-A* was the first vessel seizure to reveal Iran's activities to the international community.

Iran made many efforts to resupply Hamas during Operation Cast Lead, the Israeli incursion into Gaza from December 2008 to January 2009. The *M/V Monchegorsk*, a Russian-owned vessel flagged in Cyprus and chartered by IRISL was boarded in the Red Sea by the *USS San Antonio* in January 2009 on suspicion of arms trafficking in violation of United Nations Security Council Resolution (UNSCR) 1747.<sup>6</sup> Onboard were containers filled with propellants, 125mm tank rounds, mortar sights, and other items used in the manufacture of weapons. According to the Law of the Sea, the United States could not detain the vessel or its cargo, and therefore released the *M/V Monchegorsk*. Ultimately, the Cypriot government recalled the vessel and off loaded the cargo.

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<http://www.treas.gov/offices/enforcement/ofac/programs/wmd/wmd.pdf> (accessed October 19, 2009)

<sup>3</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; and the Subcommittee on International Terrorism and Non-Proliferation of the Committee on International Relations House of Representatives, *Iran: A quarter Century of State Sponsored Terror*, 100<sup>th</sup> Cong., 2005, 1.

<sup>4</sup> Jewish Virtual library, <http://www.jewishvirtuallibrary.org/jsource/peace/paship.html> (accessed October 23, 2009)

<sup>5</sup> Ibid.

<sup>6</sup> "Iran Reserves Right to Compensation for Held Cargo." (April 6, 2009), [http://www.javno.com/en-world/Iran-reserves-right-to-compensation-for-held-cargo\\_249136](http://www.javno.com/en-world/Iran-reserves-right-to-compensation-for-held-cargo_249136) (accessed October 23, 2009)

Most recently, U.S. Navy boarded the *Hansa India* in the Suez Canal Zone in October 2009 under suspicion of arms trafficking in violation of the same UN resolution.<sup>7</sup> The *Hansa India* is a German owned vessel flagged in Malta, which IRISL chartered for the last two years. The vessel carried seven containers of small arms ammunition, as well as one container containing copper discs. These copper discs are the key component in an EFP. The German government intervened and the U.S. allowed the vessel to continue to Malta, where the cargo was removed.

These examples indicate how Iran avoids direct links to cargo on vessels. The IRISL chartered ships ensure they make other port calls prior to receiving the weapons and make other port calls prior to arriving at their intended destinations. These tactics make the origin of the cargo difficult to determine; the vessel is able to hide in the clutter of the other vessels moving in the sea-lanes. Although the cargo of the *Monchegorsk* and the *Hansa India* were in violation of UNSCR 1747, the U.S. Navy was not able to detain the vessel or its cargo. The Law of the Sea and the language of the UN sanction itself limits action. Currently, the UN Law of the Sea nearly protects Iran's arms trafficking activities and is in direct conflict with the UN Security Council Resolutions.<sup>8</sup>

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<sup>7</sup> "Embarrassing Incident in the Gulf of Suez," Spiegel Online, October 12, 2009. <http://www.spiegel.de/international/germany/0,1518,654596,00.html> (accessed October 22, 2009)

<sup>8</sup> United Nations, *Convention on the High Seas 1958*, Treaty Series, vol. 450, p. 11, p. 82, April 29, 1958; The Law of the Sea, originally signed by the United Nations in April 1958, took effect in 1962. The crux of the Law of the Sea, as it pertains to the boarding of vessels in international waters by warships, is toothless. Essentially, if a warship suspects a vessel of suspicious behavior, the warship can "Hail and Query" the vessel. The warship can request proof of the vessel's registration, flag, and ownership. If necessary, the warship can further request to board the vessel and inspect the manifest and cargo. If the Master of the vessel can prove registration, flag, and ownership, the Master can refuse to allow the warship to board. If this is the case, the war ship may then notify the owner, and direct the vessel to the nearest port of convenience for inspection. The vessel may refuse and continue its journey, in which case the warship may shadow the vessel until such time that it is satisfied or until such time that the vessel goes to a port or enter the territorial waters of a nation. However, if the Master allows the warship to board the vessel, the boarding party may then search the vessel for contraband, verify the manifest, and verify the bill of lading against the actual contents found aboard. The warship is not authorized to seize the cargo or the crew even when the boarding party finds discrepancies in the manifest. The Law of the Sea states the government that the vessel is flagged under must be contacted, and the warship must request that the government order the ship to port for inspection. Typically, the ensuing issue is that the country involved will be a "Flag of

## Air Routes

Alvin Bernstein wrote in 1985, “What is more, once a week an Iranian Air Force Boeing 747 lands at Damascus airport and taxis to a remote strip of runway. It carries Revolutionary Guards and military supplies destined for Bekaa.”<sup>9</sup> Iran’s use of the air corridors to move both the IRGC and weapons was evident just years after the Islamic Revolution, and it continues today.

Bernstein’s statement was corroborated by testimony in 2005 before the House Committee on International Relations where it was stated, “Iranian cargo planes deliver sophisticated weaponry, from rockets to small arms, to Hezbollah in regular flights to Damascus from Tehran.”<sup>10</sup>

Air routes are generally more difficult to use to transfer arms than are sea routes. The main drawback to the use of the air routes is that most countries subject aircraft to tracking and search by customs officials. In conducting arms transfers this way, either the officials must be complicit, or deals must be made with the government to allow these weapons in to the country. In effect, the government of that country is then complicit in the act. Iran’s arms shipments are also susceptible to overflight clearance denials. These denials may happen if an intelligence service is aware of a pending shipment from Iran in support of a terrorist group and the service wishes to stop the shipment without taking direct action. Often in these circumstances a country demarches other countries and requests that specific flights not be allowed to transit or land.

Air routes can be very effective if governments are complicit in allowing Iran to transfer arms this way, or if Iran chooses to use commercial aircraft to disguise arms shipments. Although the amount of weaponry moved by air is small in comparison, air routes allow speed that is

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Convenience” country, and therefore can easily be renamed and reflagged once it has left port. These actions make the original country responsible for the vessel difficult to track. United Nations. *Convention on the High Seas 1958*. Treaty Series, vol. 450. April 29, 1958

<sup>9</sup> Alvin H. Bernstein, *In the U.S. War on Terrorism, Iran is the Enemy* (September 3, 1985) [https://www.policyarchive.org/bitstream/handle/10207/9219/87480\\_1.pdf?sequence=1](https://www.policyarchive.org/bitstream/handle/10207/9219/87480_1.pdf?sequence=1) (accessed September 29, 2009)

<sup>10</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; *Iran: A quarter Century of State Sponsored Terror*, 21.

unmatched by sea vessels. The obvious problems in the interdiction of weapons trafficking by air are that it is difficult to interdict and difficult to inspect. Although there are few if any direct ties to Iranian use of air routes to transfer arms, indirect ties to Iranian use of air corridors do exist.

A United Nations report dated October 3, 2007 as well as Stockholm International Peace Research Institute (SIPRI) report in 2009 name several air carriers, including Badr Airlines, as traffickers of illicit arms.<sup>11</sup> An interesting contradiction is that the UN also contracts Badr Airlines to move humanitarian supplies in Sudan, although it has recommended against Badr Airlines use. Badr Airlines flies primarily in East Africa; however, a photographer captured the airline's IL-76 at Mehrabad International Airport Iran in March 2008.<sup>12</sup> SIPRI also maintains a database of global arms transfers in constant 1990 dollars. According to this database, between 2005 to 2008 Iran transferred thirty four million dollars in arms to Sudan in violation of both UNSCR 1591 that places an arms embargo on Sudan and UNSCR 1747, which does not allow Iran to sell or transport arms.<sup>13</sup> Flights between Iran and Sudan become important when linked to Iran's use of ground convoys to move weapons.

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<sup>11</sup> United Nations Security Council, *Report of the Panel of Experts established pursuant to resolution 1591 (2005) concerning the Sudan prepared in accordance with paragraph 2 of resolution 1713 (2006)*, S/2007/584, 7. (recommendation 13); Mark Bromley and Hugh Griffiths, "Air Transport and Destabilizing Commodity Flows." *Stockholm International Peace Research Institute*, no. 24 (May 2009), 25. <http://books.sipri.org/files/pp/sipripp24.pdf> (accessed October 25, 2009)

<sup>12</sup> [Airliners.net](http://www.airliners.net), [http://www.airliners.net/search/photo.search?search\\_active=1&search=&headline=&domains=Airliners.net&site=search=Airliners.net&client=pub-8297169501225184&forid=1&channel=1924797129&ie=ISO-8859-1&oe=ISO-8859-1&cof=GALT%3A%23E6E8FA%3BGL%3A1%3BDIV%3A%23000000%3BVLC%3AE6E8FA%3BAH%3Acenter%3BBGC%3A45678C%3BLBGC%3A45678C%3BALC%3AE6E8FA%3BLC%3AE6E8FA%3BT%3AC4C8CC%3BGFNT%3AC4C8CC%3BGIMP%3AC4C8CC%3BLH%3A36%3BLW%3A639%3BL%3Ahttp%3A%2F%2Fcdn-www.airliners.net%2Fgraphics%2Fopen\\_file\\_header\\_image.jpg%3BS%3Ahttp%3A%2F%2Fwww.airliners.net%3BFORID%3A1%3B&hl=en&search\\_field=datedesc&q=badr+airlines+iran](http://www.airliners.net/search/photo.search?search_active=1&search=&headline=&domains=Airliners.net&site=search=Airliners.net&client=pub-8297169501225184&forid=1&channel=1924797129&ie=ISO-8859-1&oe=ISO-8859-1&cof=GALT%3A%23E6E8FA%3BGL%3A1%3BDIV%3A%23000000%3BVLC%3AE6E8FA%3BAH%3Acenter%3BBGC%3A45678C%3BLBGC%3A45678C%3BALC%3AE6E8FA%3BLC%3AE6E8FA%3BT%3AC4C8CC%3BGFNT%3AC4C8CC%3BGIMP%3AC4C8CC%3BLH%3A36%3BLW%3A639%3BL%3Ahttp%3A%2F%2Fcdn-www.airliners.net%2Fgraphics%2Fopen_file_header_image.jpg%3BS%3Ahttp%3A%2F%2Fwww.airliners.net%3BFORID%3A1%3B&hl=en&search_field=datedesc&q=badr+airlines+iran) (accessed October 26, 2009)

<sup>13</sup> Stockholm International Peace Research Institute, [http://armstrade.sipri.org/arms\\_trade/values.php](http://armstrade.sipri.org/arms_trade/values.php) (accessed October 25, 2009); United Nations Security Council, *UNSCR 1591*, S/RES/1591, (New York, March 29, 2005) <http://www.globalpolicy.org/components/content/article/168/39689.html> (accessed December 5, 2009); United Nations Security Council, *UNSCR 1747*, S/RES/1747, (New York, March 24, 2007) <http://www.globalpolicy.org/images/pdfs/0324resolution.pdf> (accessed November 15, 2009)

### **Land Routes: the Nexus of Sea and Air**

Smuggling of weapons to the intended user can only be completed over ground. Iran's use of ground transportation to ship arms is obvious in the case of Afghanistan and Iraq, due to the common borders it shares with both countries. Iran also makes extensive use of over land routes to bring weapons to Hamas. Recently Israel interdicted an Iranian convoy of weapons in Sudan, exposing a complex smuggling route used by Iran to resupply Hamas.

During Operation Cast Lead, for example, Israel interdicted a convoy of twenty-three vehicles carrying weapons traveling north from Port Sudan toward Egypt.<sup>14</sup> The weapons, according to some analysts "apparently transferred from Iran through the Persian Gulf to Yemen, from there to Sudan and then to Egypt through Sinai and the tunnels under the Egypt-Gaza border."<sup>15</sup> Following Israeli airstrikes on the convoy reports in the media cited unnamed U.S. and Israeli officials as stating that several Iranians were killed in the strikes and that in the weeks prior to the airstrikes at least one IRGC operative had gone to Sudan to organize the weapons convoy.<sup>16</sup>

Because Port Sudan has an airfield and a port facility it is the most likely trans-load point for both air and sea arms shipments from Iran destined for Sudan, Eritrea, Somalia, and Gaza. Interdicting weapons on the ground in Sudan as well as interdiction of weapons at sea in the *M/V Monchegorsk* incident provides a model for future success in countering Iran's desires to proliferate weapons in support of terrorists. This model included the employment of diplomacy as well as military kinetic and non-kinetic actions to stop the flow of weapons to Gaza and ultimately forced Hamas to engage in negotiations for peace.

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<sup>14</sup> Andrew McGregor, "Strange Days on the Red Sea Coast a New theater for the Israel Iran Conflict," *The Jamestown Foundation*, (April 3, 2009), <http://delina.org/en/news/114-strange-days-on-the-red-sea-coast-a-new-theater-for-the-israel-iran-conflict> (accessed September 16, 2009)

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

## **Financing Terrorism**

The FBI Terrorist Financing Operations Section (TFOS) and the U.S. Treasury Office of Terrorist Financing and Financial Crimes (TFFC) both have dedicated personnel to track terrorist funding. Even with the weight and resources of the U.S. government behind this effort, it is extremely difficult to follow the money involved in financing terrorism as it can come from so many sources, some appearing legitimate. Terrorists move money through traditional remittance systems such as banks and money services as well as through international trade, physical couriers, and through alternative remittance systems such as Hawalas and charities.<sup>17</sup> It is the depth and breadth of means, limits contained in national and international laws, and a multitude of complex banking regulations that makes tracking these funds so difficult.

Just as Iran is able to ship weapons through legitimate businesses and conveyances, it also uses many of the same methods to finance terrorist operations. Iran is able to finance its terrorist operations internally through what appear to be legitimate businesses and provide support in the methods terrorists use raise and move funds.<sup>18</sup>

Terrorists raise funds through a variety of legitimate and illegal methods. Examples of legitimate sources are charities, and businesses; funds are obtained through self-funding, and criminal networks as well.<sup>19</sup> This diversification of practices often allows a major terrorist organization such as Hezbollah or Hamas to continue operations regardless of government scrutiny or sanctions.

Charities have always been a favorite source for terrorist funding because they are easy to establish and lack government oversight. Regulatory requirements placed on charities are usually light. In 2002, for example, Hamas raised one hundred million dollars through donations

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<sup>17</sup> "Terrorist Financing," *Financial Action Task Force*, (Paris, France: February 29, 2008).

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

to a number of charitable organizations.<sup>20</sup> Governments, while recognizing the problem, are often unwilling to take the necessary legal actions and coordinate efforts both within and across its borders. Terrorists often move faster than the law, shifting funding from one source to the next.

In May 2008, the U.S. District Court, North District of Texas, found The Holy Land Foundation, the self-proclaimed largest Islamic charity in the United States, guilty of funding terrorism by funneling 12 million dollars to Hamas.<sup>21</sup> The Holy Land Foundation was first established in 1989 in California as the tax exempt charity Occupied Lands Fund. Several years later it changed its name and moved to Texas. In actuality, the charity front may have taken in almost sixty million dollars, but it only reported thirty six million of that to the IRS.<sup>22</sup> The investigation went back fifteen years, with the first trial ending in a mistrial. The United States retried the case a year later and a jury found the five defendants guilty. Some received sentences of as much as sixty-five years. This was the largest terrorism financing trial in U.S. history.

Like charities, legitimate business is a viable method of terrorist financing if certain provisions are applied. Because of Iran's opaque economy there is vast opportunity to move proceeds from legitimate business to terrorism. A recent example of this is the United States Government's freezing of assets owned by the Alavi Foundation and Bank Melli.

According to the Terrorist Asset Reports (TAR) issued by the Department of Treasury's

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<sup>20</sup> Trifin J. Roule, "Post 911 Financial Freeze Dries Up Hamas Funding," *Jane's Intelligence Review* (April 19, 2002), 1.  
[http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir2002/jir00213.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod\\_Name=&activeNav=http://www8.janes.com/JDIC/JTIC](http://www8.janes.com/JDIC/JTIC/documentView.do?docId=/content1/janesdata/mags/jir/history/jir2002/jir00213.htm@current&pageSelected=allJanes&keyword=Iranian%20aid%20to%20hamas&backPath=http://jtic.janes.com/JDIC/JTIC/search&Prod_Name=&activeNav=http://www8.janes.com/JDIC/JTIC)  
(accessed October 16, 2009)

<sup>21</sup> Tanya Eiserer and Jason Trahan, "Holy Land Foundation Defendants Found Guilty on all Counts," *DallasNews.com* (November 25, 2008)  
<http://www.dallasnews.com/sharedcontent/dws/dn/latestnews/stories/112508dnmetholylandverdicts.1e5022504.html> (accessed November 1, 2009)

<sup>22</sup> "Backgrounder: The Holy Land Foundation for Relief and Development," *Anti Defamation League* (May 28, 2009) [http://www.adl.org/main\\_terrorism/backgrounder\\_holyland.htm](http://www.adl.org/main_terrorism/backgrounder_holyland.htm) (accessed November 1, 2009)

Office of Foreign Asset Control (OFAC) from 2001, to 2006 “there had been no new blocking of assets of the Iranian government since January 1981.”<sup>23</sup> The sum of Iranian assets blocked by OFAC had remained \$23.2 million in real estate holdings. Primarily, these had been diplomatic properties owned by Iran during the time of the Shah. Recently, OFAC has become more active in blocking Iranian assets. OFAC’s lack of action against Iran changed in 2007 when, given new authorities under E.O. 13438, OFAC blocked a property in New York owned by Bank Melli.<sup>24</sup> A more recent example occurred in November 2009, which dealt a heavy blow to Iranian financing.

On the morning of November 13, 2009, the U.S. Government seized more than \$500 million in Iranian assets in the United States.<sup>25</sup> This action was a controversial move as the properties included Islamic centers, schools, and mosques in New York City, Houston, Maryland, and California.<sup>26</sup> The properties also included the thirty-six story Piaget building on Fifth Avenue in New York City. The U.S. Government made these seizures on information that the Alavi Foundation was sending rental money back to the Iranian Government through Bank Melli, and that the Iranian Ambassador to the United Nations was involved in the affairs of the Alavi Foundation.<sup>27</sup>

The Alavi Foundation managed the Piaget building as well as the other properties, primarily focusing on rent collection and maintenance. According to its website, the Alavi Foundation is a private, not-for-profit organization founded in 1973.<sup>28</sup> The predecessor to the Alavi Foundation

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<sup>23</sup> United States Department of the Treasury Office of Foreign Asset Control, <http://www.treas.gov/offices/enforcement/ofac/programs/terror/terror.shtml> (accessed November 16, 2009), 7.

<sup>24</sup> United States Department of the Treasury Office of Foreign Asset Control, *Terrorist Assets Report Calendar Year 2007*, (Washington D.C.: 2007), 13-16.  
<http://www.treas.gov/offices/enforcement/ofac/reports/tar2007.pdf> (accessed November 16, 2009)

<sup>25</sup> “Four Mosques Seized in U.S.,” *Al Jazeera.com*, (November 13, 2009)  
<http://english.aljazeera.net/news/americas/2009/11/2009111373941901958.html> (accessed November 13, 2009)

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Alavi Foundation, <http://www.alavifoundation.org/> (accessed November 16, 2009)

was the Pahlavi Foundation, which was renamed the Foundation of the Oppressed by Ayatollah Khomeini.<sup>29</sup> As these seizures took place, Congress was passing legislation to strengthen the Iran Sanctions Act (ISA) as well.

Criminal networks are a very lucrative source of financing for terrorists, and receive much attention among the threat financing community. While any criminal activity can produce this funding, the most likely sources are drug trafficking, credit card and check fraud, extortion, and kidnapping.<sup>30</sup> According to MG Michael Flynn and Simone Ledeen, the Paraguayan government assessed that between 1995 and 2001 Hezbollah received fifty million dollars from the Barakat clan in the Tri-Border Area. This money was raised through the sales of drugs and pirated goods.<sup>31</sup> Because tracking the trail of the money in these crimes is difficult, the quantity of money that is involved is difficult to ascertain. Once terrorists have raised money, they must move it in order to facilitate an operation.

### **How Terrorists Move Funds**

The Treasury spends a great deal of time assessing the Informal Value Transfer System (IVETS), which includes the Hawalas of the Middle East.<sup>32</sup> Terrorists choose to use the Hawla system due to the instabilities of a given country or its economic system, the lack of fees in the Hawala system, and the fact that the Hawala system typically makes money transfers ready for

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<sup>29</sup> “U.S. Moves to Seize 4 Iran-Linked Sites,” *Associated Press*, (November 13, 2009) <http://jpost.com/servlet/satellite?apage=2&cid=1258027280796&pagename=jpost%2fjparticle%2fshowfull> (accessed November 13, 2009); Kenneth Katzman, “Iran’s Bonyads: Economic Strengths and Weaknesses,” *The Emirates Center for Strategic Studies and Research* (August 6, 2006) <http://www.ecssr.ac.ae/cda/en/featuredtopics/displaytopic/0,1670,502-98-43,00.html> (accessed November 2, 2009)

<sup>30</sup> “Terrorist Financing.”

<sup>31</sup> Flynn, Michael T. and Ledeen, Simone A., “Pay for Play, Countering Threat Financing,” *Joint Forces Quarterly Issue 56, First Quarter* (2010), 124.

<sup>32</sup> United States Department of the Treasury Financial Crimes Enforcement Network, “FINCEN Advisory”, (March 2003) issue 33, 3. [http://www.fincen.gov/news\\_room/rp/advisory/pdf/advis33.pdf](http://www.fincen.gov/news_room/rp/advisory/pdf/advis33.pdf) (accessed November 2, 2009)

use in twenty-four hours.<sup>33</sup> Traditional methods such as banks do not complete transfers in less than two days, there are fees associated with transfers, and banks are not in remote areas where many of the terrorists reside. The issue of tracking the Hawala system is complicated further by the fact that it has been in use in various forms since 5800 B.C. in India as a method of settling accounts between villages.<sup>34</sup>

### **How Terrorists Use Funds**

Because tracking how terrorists raise and move funds is difficult, it is nearly impossible to determine the actual expenditures. However, funding for terrorism can be broken down into two distinct categories—funding for direct operational use and funding for training and propaganda.<sup>35</sup> Direct operational funds are used for all items associated with financing an operation or activity--transport costs, salaries, purchasing weapons or vehicles, and all items associated with financing of operation or activity. Funding for training and propaganda often exceeds the actual operational costs because terrorists conduct training and employ propaganda continuously. The key to understanding Iranian financing of terrorism lies in the IRGC's involvement in the Iranian economy.

### **Funding the IRGC: Iran's Economy**

Because of the allowances granted the IRGC owned companies and IRGC controlled foundations as well as the oversight placed on the IRGC itself by Iran's leadership, the IRGC has integrated itself broadly and deeply into Iran's economy. These allowances provide the IRGC with the ability to move proceeds from legitimate businesses to the coffers used in financing

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<sup>33</sup> Patrick M. Jost, and Harjit Singh Sandhu, "The Hawala Alternative Remittance System and its Role in Money Laundering," *United States Department of the Treasury Financial Crimes Enforcement Network*, (Undated), 1-9. <http://www.treas.gov/offices/enforcement/key-issues/hawala/fincen-hawala-rpt.pdf> (accessed December 5, 2009)

<sup>34</sup> United States Department of the Treasury Financial Crimes Enforcement Network, "FINCEN Advisory", 1.

<sup>35</sup> Anne L. Clunan, *U.S. and International Responses to Terrorist Financing* (Monterey, California: Center for Contemporary Conflict, Naval Post Graduate School, January 2005)

terrorist organizations.

Article 147 and Article 150 of the Iranian Constitution mandate the Iranian Revolutionary Guard's involvement in the economy. Article 150 specifically assigns the IRGC the "...role of guarding the revolution and its achievements." (reflective of Ayatollah Khomeini's desires).<sup>36</sup> In recent years, the IRGC has expanded the scope of its constitutionally mandated roles and missions from merely protection of the theocracy to participating in the economy, and involvement in the politics of the theocracy at all levels. Observers believe that as long as Iran's Supreme Leader supports the IRGC's actions, nothing the IRGC does is illegal.<sup>37</sup>

The entry of the IRGC into Iran's economy came soon after the revolution when Ayatollah Khomeini placed it in control of the Defense Industries Organization (DIO), previously the Military Industries Organization.<sup>38</sup> The DIO maintained its original function of supporting Iran's economic and military self-sufficiency and the IRGC now had a foothold in military acquisition and development; ultimately many of DIO's products, such as military electronics, began to have commercial applications. As a result, the IRGC broadened its wealth and began to diversify its business holdings.

The IRGC then formed the Khatam-ol-Anbia (GHORB), now one of the largest and strongest construction contractors in Iran.<sup>39</sup> The Chairman of GHORB is also the Commander-in-Chief of the IRGC; due to IRGC ownership of the GHORB, the company is tax-exempt and internally

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<sup>36</sup> Ali Alfoneh, "How Intertwined are the Revolutionary Guard in Iran's Economy?" *Irantracker*, (October 22, 2007) <http://www.irantracker.org/analysis/how-intertwined-are-revolutionary-guards-irans-economy> (accessed November 1, 2009); "...in time of peace the government must utilize the personnel and technical equipment of the army in relief operations, and for educational and productive ends, and the Construction Jihad, while fully observing the criteria of Islamic justice and ensuring that such utilization does not harm the combat readiness of the army." – Article 147 of the Iranian Constitution

<sup>37</sup> Alfoneh, "How Intertwined are the Revolutionary Guard in Iran's Economy?"

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

audited.<sup>40</sup> In June 2006, GHORB won a \$1.3 billion bid to build the oil and gas pipeline that will link Iran, Pakistan, and India.<sup>41</sup> GHORB also won the \$2.3 billion dollar bid to lead the oil and natural gas exploration effort in the South Pars phase 15 and 16 project.<sup>42</sup> In July 2006, GHORB purchased the Oriental Kish Company, one of the largest oil companies in Iran. The IRGC-run corporation is not only near the top of Iran's oil industry, it also has a role in the global economy. Recent revelations by Iran's Central Bank indicate there is a \$25 billion discrepancy in the oil industry revenues reported over the last four years.<sup>43</sup> The IRGC operates a smuggling network that supplies an underground economy, the proceeds from this smuggling network provide funding for operations.

The IRGC is in support of terrorist operations functioning as a quasi-legal criminal organization. It has very few limits and has a history of using coercion and intimidation to influence the Iranian government. The IRGC controls a vast smuggling operation facilitated by its control of many of the airports and port facilities in the country.<sup>44</sup> For example, the IRGC controls the customs at the Payam airport, 33 miles west of Tehran, allowing between four and eight cargo flights a day that bring everything from cosmetics to computers into Iran for sale on the black market.<sup>45</sup> The obvious benefits to the IRGC in both revenue and support to clandestine activities led the IRGC to take extraordinary action in 2004 to protect its equities.

Iman Khomeini International Airport replaced Mehrabad Airport in Tehran in May 2004, the Iranian government decided to contract the operation of the airfield to an Austrian and a Turkish

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<sup>40</sup> Ibid.

<sup>41</sup> Angus McDowall, "Ghorb's Contracting Coup: The Rise of Khatam-ol-Anbia (GHORB), which has Recently Won Work Worth More than \$5,000 Million, has Raised Concerns among Private and Foreign Contractors," *Middle East Economic Digest* (July 21, 2006) <http://www.accessmylibrary.com/article-149462303/ghorb-contracting-coup-rise.html> (accessed November 2, 2009)

<sup>42</sup> Ibid.

<sup>43</sup> "Iran's Massive Oil Revenue Discrepancies," *UPI.com* (September 23, 2009) [http://www.upi.com/science\\_news/resource-wars/2009/09/23/Irans-massive-oil-revenue-discrepancies/upi-38201253740655/](http://www.upi.com/science_news/resource-wars/2009/09/23/Irans-massive-oil-revenue-discrepancies/upi-38201253740655/) (accessed November 2, 2009)

<sup>44</sup> Alfoneh, "How Intertwined are the Revolutionary Guard in Iran's Economy?"

<sup>45</sup> Ibid.

firm.<sup>46</sup> The day that the airfield opened, IRGC units stormed the control tower and blocked the runway with tanks.<sup>47</sup> This demonstration of force resulted in the Iranian government returning control of the airport to the IRGC.<sup>48</sup> In the first eighteen months of operations at Khomeini International Airport, the IRGC smuggled billions of dollars of goods into Iran.<sup>49</sup>

Members of the Iranian parliament (Majlis) have stated that the IRGC earns about \$12 billion a year due to smuggling and that The IRGC controls the Martyr Rajai Port Complex on the west side of Bandar Abbas. The IRGC smuggles gasoline out of the country, making a two hundred percent profit with little fear of reprisals.<sup>50</sup> Gasoline is a lucrative item for smuggling because the government subsidizes it at a cost of thirty-eight to forty cents a gallon to the consumer.<sup>51</sup> The IRGC is not only involved in legitimate business, it is also involved in charitable foundations in Iran, which it uses to provide cover and funding for its clandestine and covert activities.

Within Iran, there are a number of government owned and operated foundations established to provide for the martyrs of wars, veterans, etc. The largest of these foundations is the Foundation of the Oppressed, with an estimated worth of \$12 billion in 2006.<sup>52</sup> Originally founded in 1958 as the Pahlavi Foundation, Ayatollah Khomeini renamed it following the Revolution. The foundation took control of the financial assets of both the Shah and his associates, making it a powerful entity in a fledgling Islamic Republic.<sup>53</sup>

Regarded as the largest financial entity in Iran after the government itself, the tax exempt

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<sup>46</sup> Alfoneh, "How Intertwined are the Revolutionary Guard in Iran's Economy?".

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> "Report: Iran to End Gasoline Subsidies," *PressTV*, (June 28, 2009)

<http://www.presstv.ir/detail.aspx?id=99286&sectionID=351020102> (accessed November 7, 2009)

<sup>52</sup> Kenneth Katzman, "Iran's Bonyads: Economic Strengths and Weaknesses," *The Emirates Center for Strategic Studies and Research* (August 6, 2006)

<http://www.ecssr.ac.ae/cda/en/featuredtopics/displaytopic/0,1670,502-98-43,00.html> (accessed November 2, 2009)

<sup>53</sup> Ibid.

Foundation of the Oppressed is now in control of over four hundred companies and factories, and has customs privileges. It is said that the Supreme Leader himself is the sole supervisor of the foundation.<sup>54</sup> Additionally, a retired Chief of Staff of the IRGC runs the Foundation of the Oppressed, leading to accusations that the IRGC uses the Foundation as a proxy to run off-the-books covert operations.<sup>55</sup>

Anne Clunan observed in 2005 that the “international effort on terrorist financing, while impressive, has been largely superficial.”<sup>56</sup> While this is unfortunate, historical research and recent cases show just how hard it is to stem the flow of financial support to terrorists. Terrorists are able to take advantage of laws written in support of charities and businesses, as well as loopholes in financial sanctions against Iran.

Financing terrorism is decisive to the overall effort of sponsorship. The IRGC has diversified its efforts in order to maintain stability and maximize its cash flow. This is clear in the use of charities, legitimate businesses, and criminal activity by the IRGC. What is more, the IRGC have not merely diversified across the spectrum of financing methods, but have also diversified geographically, as shown in their efforts in South America. Economic sanctions alone will not be enough to provide results in cutting off the flow of money controlled by the IRGC.

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<sup>54</sup> “Iranian Foundation Head Denies Accusations of Corruption,” *NYTimes.com* (January 8, 1995) <http://www.nytimes.com/1995/01/08/world/iranian-foundation-head-denies-accusations-of-corruption.html> (accessed November 2, 2009)

<sup>55</sup> Alfoneh, “How Intertwined are the Revolutionary Guard in Iran’s Economy?”.

<sup>56</sup> Clunan, *U.S. and International Responses to Terrorist Financing*, 5.

## CHAPTER 4

### IRAN'S ECONOMY AND ITS CAPABILITY TO SUPPORT TERRORISM

[The] Iranian economy has been totally contingent on petroleum throughout this lengthy period [1912-2003]<sup>1</sup>

-Vahid Isabeigi<sup>2</sup>

The world's view of Iran's economy is clouded by Iran's distrust toward all sides as well as the Iranian government's efforts to disguise the details of its economic patterns. Petroleum drives Iran's economy, through both crude oil exports and gasoline imports. Iran's quest for security has driven it to take a pragmatic and aggressive approach to ensuring its people have access to gasoline and ensuring that Iran can ultimately become self-sufficient in providing for the energy needs of its citizens. Iran clearly has recognized its reliance on gasoline imports as a weakness, and is executing a plan to diversify its gasoline and oil trade. Because Iran, through the IRGC, has created a clandestine terror support network within its economy, understanding basic facts about Iran's economy and foreign will assist in defining a comprehensive strategy.

#### **Iran: Key Economic Facts**

The Iranian economy in 2009 suffers from the following factors: an inflation rate of thirty percent, a national unemployment rate of ten percent, eighteen percent of the population living below the poverty line, and a Gross National Income per capita (GNI) of \$3540 in U.S. dollars.<sup>3</sup> Iran's dependence on imported gasoline is on the rise, while Iran's production of both oil and

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<sup>1</sup> Vahid Isabeigi, "Petroleum: Iran's Black Curse," *Asia Times.com*, (April 26, 2003) [http://www.atimes.com/atimes/middle\\_east/ed26ak03.html](http://www.atimes.com/atimes/middle_east/ed26ak03.html) (accessed March 17, 2010)

<sup>2</sup> Vahid Isabeigi is a noted writer living in Canada

<sup>3</sup> Omid Memarian, "Economy-Iran: From Bad to Worse?" *IPSNEWS.net*, (December 19, 2008) <http://www.ipsnews.net/news.asp?idnews=45184> (accessed November 4, 2009); CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html> (accessed February 19, 2010); World Bank.org, <http://www.siteresources.worldbank.org/datastatistics/resources/gnipc.pdf> (accessed February 19, 2010)

gasoline has remained relatively unchanged. This increased usage is due in large part to a growing population. Iran's population was reportedly 48 million people in 1986.<sup>4</sup> Since then Iran has experienced a population growth from 66 million people in 1996 to an estimated population of 73 million people in 2009.<sup>5</sup>

Other key indicators of Iran's economy are GDP (in purchasing power parity), which has grown from \$801.7 billion in 2007 to \$876 billion in 2009.<sup>6</sup> In budgeting, Iran's revenues are \$97.71 billion, while its expenditures are \$84.78 billion, and Iran's external debt decreased from \$21.06 billion in 2008 to \$18.73 billion in 2009.<sup>7</sup> Iran's exports in 2009 were \$70.16 billion, while its imports were \$57.19 billion dollars in the same year.<sup>8</sup>

The confluence of these factors is that while the Iranian government is seemingly doing well economically in reducing its external debt and importing \$13 billion less than it exports, this prosperity is not working its way down to the average Iranian. Iran's economy is reliant on a subsidy program that affects the life of every Iranian by keeping prices low on essential items, and keeping these items available to all Iranians. President Ahmadenijad and Parliament have recently announced a plan to revoke the subsidized gasoline program in favor of more targeted program.<sup>9</sup> While the revocation of this program in its current form will save the government money, it has raised concerns among the Iranian people as they are reliant on the subsidy program.

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<sup>4</sup> *Countrystudies.us* <http://countrystudies.us/iran/32.htm> (accessed November 12, 2009)

<sup>5</sup> *Iranonline.com* <http://www.iranonline.com/iran/iran-info/people/index.html> (accessed November 12, 2009); *The World Bank* <http://web.worldbank.org/website/external/countries/menaext/iranextn/0,,menupk:312966~pagepk:141132~pipk:141107~thesitepk:312943,00.html> (accessed November 12, 2009)

<sup>6</sup> CIA World Factbook.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Dave Cohen, "Gas Subsidies and Iran," *Energy Bulletin*, (July 5, 2007) <http://www.energybulletin.net/node/31726> (accessed November 7, 2009)

While gas subsidies in Iran are not new, the rationing of gasoline began in 2007.<sup>10</sup> Iran subsidizes gasoline, oil, natural gas, bread, water, electricity, telephone, and transportation costs, however the price of gasoline affects all these other goods in production and transportation costs.<sup>11</sup> The effect of these programs is that approximately one third of a household income is paid in subsidies, and these programs cost the Iranian government about \$100 billion a year.<sup>12</sup> The gasoline subsidy and ration system allows each driver to purchase one hundred liters of gasoline a month at a cost of about thirty-eight cents a gallon.<sup>13</sup> Drivers are also able to purchase an unlimited amount of unsubsidized gasoline for approximately \$1.52 a gallon.<sup>14</sup> This program has increased congestion on the roads as well as pollution since it is very inexpensive to drive a car.

The Iranian economy is heavily dependent on oil sales to support its economy, as their crude oil income accounts for eighty percent of their foreign earnings.<sup>15</sup> Iran's government plans its budget based on the assumption that its crude oil will sell on the world market for about sixty dollars per barrel of oil.<sup>16</sup> However, in order to maintain a balanced budget, Iran must sell oil at about 90 dollars a barrel.<sup>17</sup> The price of Iran's oil on the world market translates into revenue for the government, and this revenue in turn corresponds to assets available to the Iranian government. Ultimately, Iran prioritizes these assets against its national interests. As Iran struggles with its budget and its deficit, it faces difficult decisions regarding how to apportion

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<sup>10</sup> Dave Cohen, "Gas Subsidies and Iran,".

<sup>11</sup> Najmeh Bozorgmehr, "Iran Parliament Backs Move to Slash Subsidies," *FT.com*, (October 12, 2009) <http://www.ft.com/cms/s/0/a9d884ba-b6c5-11de-8a28-00144feab49a.html> (accessed November 7, 2009)

<sup>12</sup> Ibid.

<sup>13</sup> "Report: Iran to End Gasoline Subsidies," *PressTV*, (June 28, 2009) <http://www.presstv.ir/detail.aspx?id=99286&sectionID=351020102> (accessed November 7, 2009)

<sup>14</sup> Ibid.

<sup>15</sup> "Iran Says Oil Under 60 Dollars Troubling for Economy," *Iranpressnews.com*, (November 3, 2008) <http://www.iranpressnews.com/english/source/048706.html> (accessed November 4, 2009)

<sup>16</sup> Memarian, "Economy-Iran: From Bad to Worse?".

<sup>17</sup> Ibid.

assets that support its national interests.

### **Old Problems and New Deals**

Iran has diversified contracts with its gasoline suppliers and therefore has stabilized the flow of gasoline to its people. This is especially true in the case of Iran's new agreements with China. China was responsible for providing 40,000 barrels of gasoline per day to Iran in 2007.<sup>18</sup> This trade with China was in the context of Iran purchasing oil from sixteen countries in 2007, including India, France, the UAE, and the Netherlands.<sup>19</sup> China's gasoline trade with Iran, therefore, was forty-two percent of the 94,000 barrels of gasoline per day that Iran imported following the gasoline rationing during 2007. During the year 2009, Iran has been importing in the range of 120,000 to 128,000 barrels of gasoline per day due to an increase in consumption.<sup>20</sup> As a prelude to the international community placing gasoline sanctions on Iran, India's Reliance has ceased direct sales of gasoline to Iran.<sup>21</sup> China, however, increased its sales of gasoline to Iran in August and is now supplying approximately 83,000 barrels of gasoline, or sixty five percent of Iran's gasoline imports, to Iran daily.<sup>22</sup> Besides current sales, since 2007, China has signed deals with Iran worth \$31 billion in investments in Iran's oil and liquid natural gas industries.<sup>23</sup> These moves raise the question whether China will support expanded sanctions on Iran, whether China will actually enforce any internationally imposed sanctions on Iran.

Other current suppliers to Iran include Venezuela, which supplies 20,000 barrels of gasoline

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<sup>18</sup> Brianna Rosen, Charlie Szrom, and Maseh Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?" *Irantracker.org*, (October 1, 2009) <http://www.irantracker.org/us-policy/gasoline-sanctions-iran-how-will-tehran-respond> (accessed October 10, 2009)

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> "Reliance Not Selling Gasoline to Iran," *International Business Times.com*, (December 1, 2009) <http://www.ibtimes.co.in/articles/20091201/reliance-not-selling-gasoline-iran.htm> (accessed December 5, 2009)

<sup>22</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?"

<sup>23</sup> Carl Bagh, Jijo Jacob, and Simon Webb, "FACTBOX: Iran's Major Oil Customers, Energy Partners," *Reuters*, (August 19, 2009) <http://www.reuters.com/article/gca-oil/industre57124Z20090819> (accessed November 12, 2009)

per day to Iran, and Ecuador to which Iran recently loaned \$280 million in order to build an oil refinery.<sup>24</sup> Although Iran is reaching out to countries in South America, it is also extending contracts to African countries.

Iran's campaign of diversification has spread to both Kenya and Eritrea. President Ahmadenijad has visited with the heads of both countries, and in the process, signed deals with both pertaining to oil refineries, and military basing.<sup>25</sup> Iran seems to be making these deals for several reasons. Diversifying its gasoline supply is certainly a near term issue, but particular to the African countries, it appears that these deals were made in support of the Iranian nuclear program, as both countries made formal statements of support for Iran's nuclear program following these deals being signed.<sup>26</sup>

In Malaysia, Iran signed a deal worth \$14 billion to form a joint refining company.<sup>27</sup> Through this contract, Malaysia will purchase 120,000 barrels of crude oil per day from Iran as well as liquid natural gas. This diversification to Malaysia not only spreads Iran's interests to South Asia, but also allows Iran to purchase gasoline from another source outside the waters of the Arabian Peninsula. Iran has implemented yet another safeguard to ensure its supply of gasoline if they face sanctions.

Iran's ability to import gasoline in sufficient quantities has resulted in another strategic success for the Islamic Republic. Iran has been able to stockpile nearly nine million barrels of gasoline, which will enable them to inject 24,000 barrels of gasoline per day into the economy for

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<sup>24</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?"; Jose Roy, "Iranian Exports to Ecuador Soar," *Toboc.com*, (August 12, 2009) <http://www.toboc.com/tradenews.aspx?tradeid=1349> (accessed November 12, 2009)

<sup>25</sup> Boris Bachorz, "Untitled", at The Daily Star.com (Agence France Presse: September 5, 2009) [http://www.dailystar.com.lb/article.asp?edition\\_id=10&categ\\_id=106129](http://www.dailystar.com.lb/article.asp?edition_id=10&categ_id=106129) (accessed September 16, 2009); House of Representatives, *H.CON.RES.16*, 111<sup>th</sup> Cong., 1<sup>st</sup> Sess., (January 9, 2009). 5. [http://thomas.loc.gov/home/gpoxmlc111/hc16\\_1h.xml](http://thomas.loc.gov/home/gpoxmlc111/hc16_1h.xml) (accessed October 16, 2009)

<sup>26</sup> House of Representatives, *H.CON.RES.16*, 5.

<sup>27</sup> Bagh, Jacob, and Webb, "FACTBOX: Iran's Major Oil Customers, Energy Partners,".

a year if the international community imposes sanctions.<sup>28</sup> This strategic reserve allows Iran to continue to operate through sanctions, and allows Iran some freedom of action in response to sanctions.

### **Iran's Oil Exports:**

Iran is a founding member of OPEC, and controls the third largest proven oil reserve in the world.<sup>29</sup> Iran's oil industry previously was composed largely of privately owned companies. However, with the overthrow of the Shah the government consolidated the oil industry under the National Iranian Oil Company.<sup>30</sup> Recently, however, Iran has allowed limited privatization of the oil industry. In addition to privatization, Iran continues to look for assistance in developing new areas of its oil fields. Iran has therefore pursued contracts that will aid their ability to increase oil production. Iran and China signed a contract to develop the North Azadegan oil field in January 2009.<sup>31</sup> When this project is complete, it will likely provide Iran oil revenues of \$16 billion over twenty-five years.<sup>32</sup>

Iran has positioned itself to negate the impact of any sanctions against its gasoline or oil industry. China is not the only country that has taken an interest in the development of Iran's oil and gasoline industries. Iran has diversified its contracts with several countries to supply gasoline and invest in Iran's own refineries, and Iran has taken the measure of stockpiling gasoline in the event of a gasoline embargo.

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<sup>28</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?".

<sup>29</sup> Energy Information Administration,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=53&aid=1> (accessed November 11, 2009)

<sup>30</sup> National Iranian Oil Company Official Website,  
[http://www.nioc.ir/english/brief\\_history/page8.html#bf19](http://www.nioc.ir/english/brief_history/page8.html#bf19) (accessed December 5, 2009)

<sup>31</sup> "Iran Signs Giant Oil Deal with China," *Payvand.com*, (June 3, 2009)  
<http://www.payvand.com/news/09/jun/1031.html> (accessed November 11, 2009)

<sup>32</sup> Najmeh Bozorgmehr, "Iran and China Sign a \$1.7 Billion Oil Contract," *Financial Times.com*, (January 15, 2009) [http://www.ft.com/cms/s/0/27d1a234-e2a5-11dd-b1dd-0000779fd2ac.html?nclink\\_check=1](http://www.ft.com/cms/s/0/27d1a234-e2a5-11dd-b1dd-0000779fd2ac.html?nclink_check=1) (accessed August 25, 2009)

Due to economic sanctions on Iran that limit foreign investment in its energy and oil industries, Iran has only slowly modernized its oil field and refinery infrastructure. This has resulted in the inability of the supply of oil and gasoline to keep up with the Iranian demand, and has kept Iran from truly capitalizing on its oil industry, as well as keeping Iran from having the ability to influence the global price of crude oil.

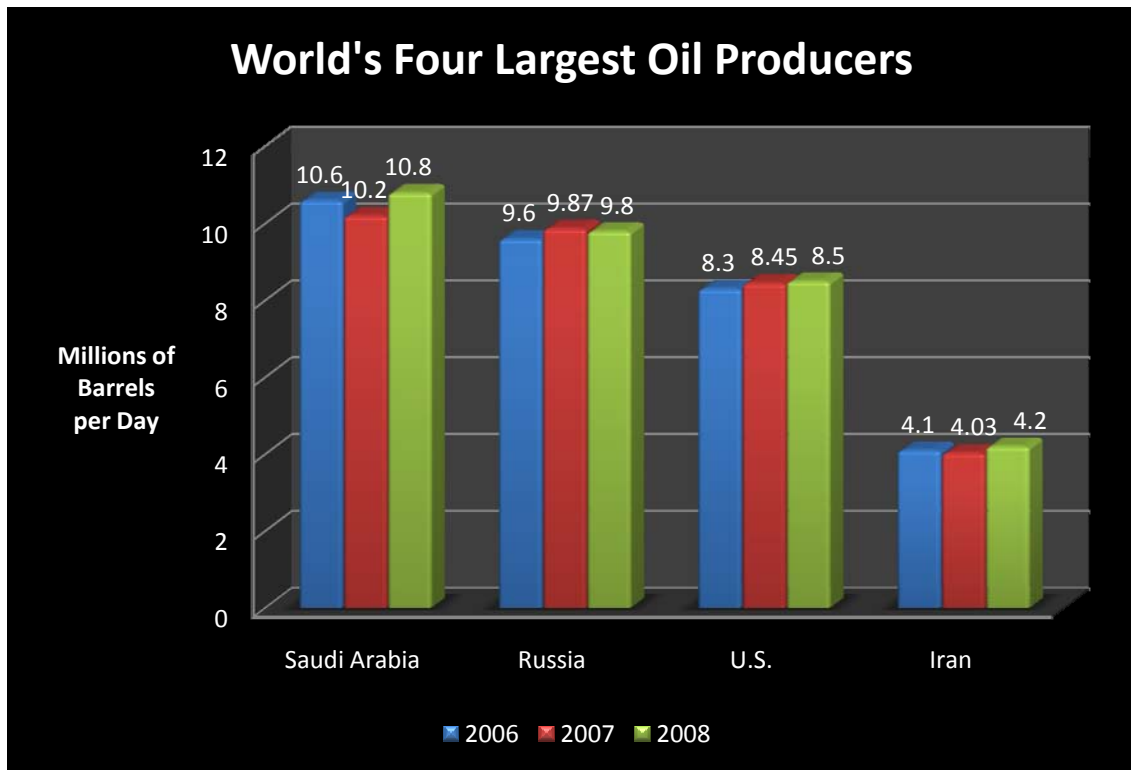
Iran's total oil production was fourth in the world in 2008 with a production of 4.2 million barrels a day.<sup>33</sup> Figure 1 below shows the world's four largest oil producers, and their respective production from 2006 to 2008. While Iran's oil production remains stable, there is speculation that due to the maturity of the oil fields, there will be a decline in oil production. This decline could be so steep that according to some estimates, by 2015 Iran may not export any crude oil.<sup>34</sup>

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<sup>33</sup> Energy Information Administration.

<sup>34</sup> Roger Stern, "Iranian Petroleum Crisis and United States National Security," *Proceedings of the National Academy of Sciences*, (October 31, 2006) <http://www.pnas.org/content/104/1/377.full?sid=b3e1a565-cf9e-4076-90da-0f8f46de65fd> (accessed November 11, 2009)

**Figure 1**



*Source:* Data from Iran Tracker.org, and the Energy Information Administration<sup>35</sup>

Increasing oil production is critical to Iran's future because it is key to increasing its own gasoline production. Increased oil production will allow for sales of crude to continue at steady state, and thereby will not impact Iran's current revenue while it increases its own gasoline refinery capacity. This increase in crude oil production, when coupled with Iran's increasing gasoline refinery capability, will end its reliance on gasoline imports, and allow Iran to continue its covert financing of terrorism. Iran's leadership has focused its attention on attracting investment into gasoline refineries in the last several years. Iran must be able to provide for itself while still profiting from sales of petroleum products on the global market, if it is to continue toward its goals.

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<sup>35</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How Will Tehran Respond?"; Energy Information Administration.

## **Gasoline: Refineries and Imports**

Iran's inability to refine gasoline is due primarily to the loss of its oil refineries in the Iran-Iraq war, coupled with economic sanctions that have not allowed Iran to rebuild its refineries rapidly.<sup>36</sup> This has resulted in Iran producing and exporting oil, and in return purchasing gasoline to support its citizens. The exact disparity in Iran's oil export revenues against gasoline import deficit cannot be determined without knowing the true amount of subsidized gasoline sold in Iran, what is known is this; in 2006 Iran exported 318,113 barrels of oil a day, while importing 172,900 barrels of gasoline a day.<sup>37</sup> Jeffrey J. Schott of the Peterson Institute for International Economics stated in testimony to Congress in July 2006 that due to a surge in oil prices Iran had seen a growth in its profits from \$15 billion in 1995 to \$46 billion in 2005.<sup>38</sup> Based on 2006 figures, Iran would have sold \$69 billion in oil and purchased \$5.2 billion in gasoline.<sup>39</sup> However, as stated earlier Iran's subsidy program costs the government nearly \$100 billion dollars a year, so while Iran may be reducing its external debt, it is massively increasing its internal debt.<sup>40</sup> The import and subsidization of so much gasoline is extremely expensive, hence Iran longs to become gasoline self-sufficient.

Iran has been working to increase capacity at its existing refineries as well as to construct new refineries. Currently, Iran has nine active refineries, producing 288,205 barrels of gasoline per day.<sup>41</sup> This only accounts for sixty percent of Iran's gasoline consumption, requiring Iran to

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<sup>36</sup> "Iran: The Refineries," *All Business.com*, (April 4, 2005) <http://allbusiness.com/mining-gas-extraction-crude-petroleum-natural/386180-1.html> (accessed December 5, 2009)

<sup>37</sup> Energy Information Administration, <http://www.eia.doe.gov/emeu/international/contents/html> (accessed February 18, 2010)

<sup>38</sup> Jeffery J. Schott, "Economic Sanctions, Oil, and Iran," *Peterson Institute for International Economics*, (July 25, 2006) <http://www.iie.com/publications/papers/paper.cfm?researchid=649> (accessed February 18, 2010)

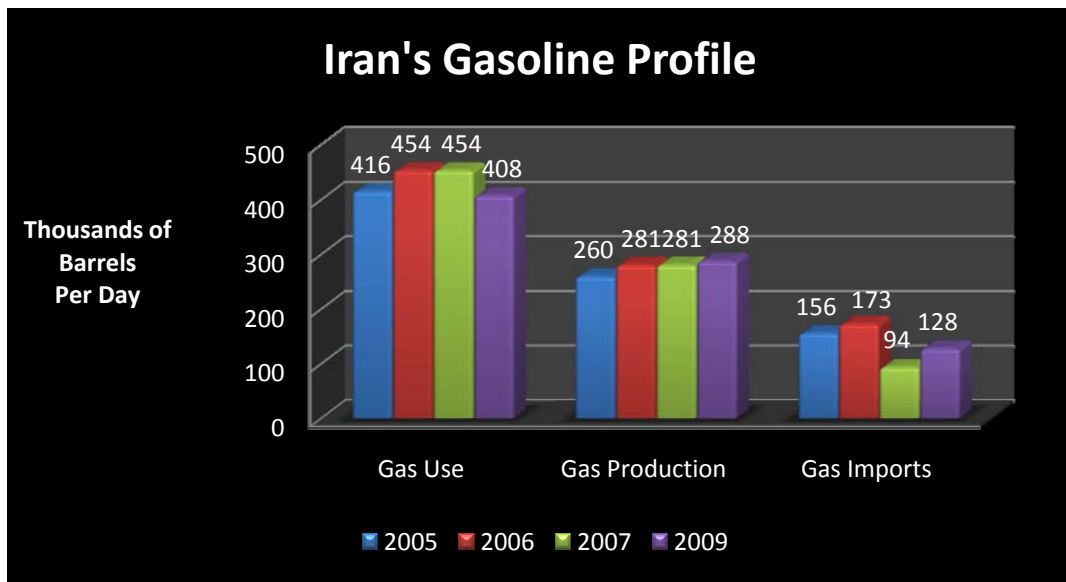
<sup>39</sup> Energy Information Administration.

<sup>40</sup> Najmeh Bozorgmehr, "Iran Parliament Backs Move to Slash Subsidies,".

<sup>41</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How Will Tehran Respond?."

import another forty percent to fulfill its energy requirements.<sup>42</sup> Figure 2 below illustrates the growth of Iran's gasoline consumption from 2005 to 2007, as well as the decrease in gasoline imports following the 2007 institution of rationing. Gasoline consumption in Iran is on the rise and will only increase as both the population and number of privately owned vehicles grows.

**Figure 2**



Source: Data from Iran Tracker.org, and the Energy Information Administration<sup>43</sup>

The international community sees Iran's reliance on imported gasoline as a likely start point to implement new economic sanctions. Iran is well aware of this strategic vulnerability and implemented a program to paralyze any effort to halt the flow of gasoline to Iran.<sup>44</sup>

Iran's efforts to revitalize its existing refineries and construct new refineries are projected to begin paying off in 2011.<sup>45</sup> Iran's gasoline output will nearly double in 2011 when the expansion of its nine existing refineries is completed. What is more, Iran is also constructing seven new

<sup>42</sup> Ibid.

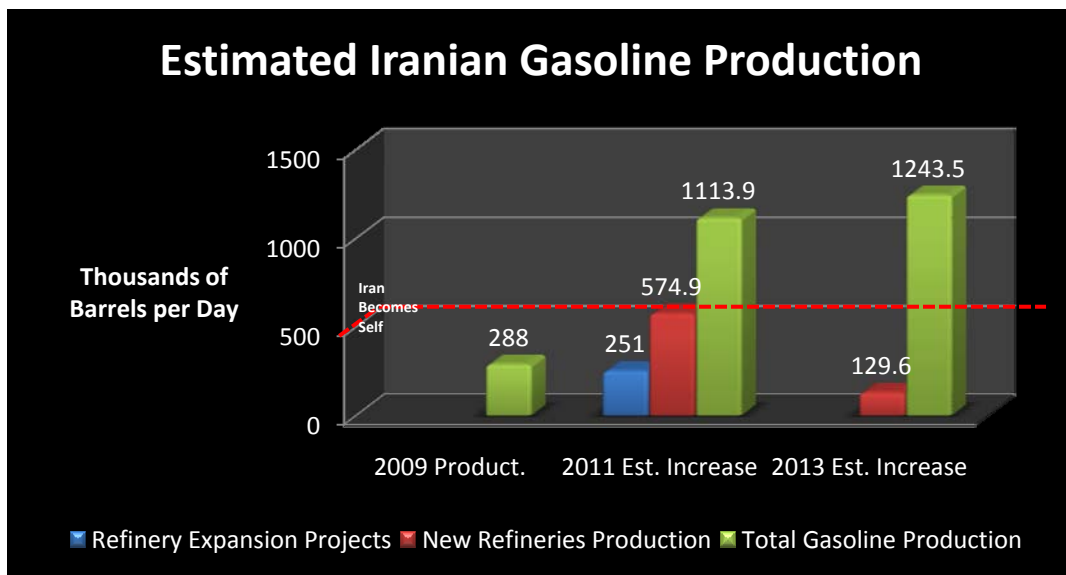
<sup>43</sup> Ibid.; Energy Information Administration, <http://www.eia.doe.gov/emeu/cabs/iran/background.html> (accessed December 5, 2009)

<sup>44</sup> Charlie Szrom, "Structural Patronage in Iran: Implications of Subsidies Reform for Iran and U.S. Policy," *Irantracker.org*, (January 28, 2010), <http://www.irantracker.org/analysis/structural-patronage-iran-implications-subsidies-reform-iran-and-us-policy> (accessed February 22, 2010)

<sup>45</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?"

refineries, many of which will be complete in 2011 as well.<sup>46</sup> Iran will therefore experience a four-fold increase in gasoline production in 2011, allowing it not only to become self-sufficient, but also being able to export gasoline. Iran will then see another increase in gasoline output in 2013, when its last new refinery is complete. Figure 3 below details the potential dramatic growth of Iran's gasoline production in 2011 and again in 2013, relative to their 2009 output.

**Figure 3**



Source: Iran Tracker.org<sup>47</sup>

Table 1 below indicates that in 2013 Iran could earn another \$24 billion in yearly revenues due to gasoline sales, equivalent to seven percent of Iran's GDP in 2008.<sup>48</sup>

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Table 1 shows Iran's expected shift from a negative cash flow to a positive cash flow due to new refining capacity. This Table uses a constant price per barrel of gasoline as it was on November 11, 2009. Additionally, the Table assumes that Iranian gasoline consumption will rise to the pre-2007 rationing levels in 2011 due to the increased supply created by the new refining capacity.

**Table 1****Iran's Profits Due to Increased Refinery Production**

	Gasoline Production	Gasoline Consumption	Difference	Price per Barrel	Deficit/Revenue
2009	288,000	408,000	-120,000	\$83.58	<b>-\$10,029,600</b>
2011	1,113,900	454,000	+659,900	\$83.58	\$55,154,442
2013	1,243,500	454,000	+789,500	\$83.58	\$65,986,410
				<b>Yearly Earnings</b>	<b>\$24,085,039,650</b>

*Source: Bloomberg.com, Iran Tracker.org, and the Energy Information Agency<sup>49</sup>*

Currently the greatest economic weakness the Iranian government has is its desire to provide cheap gasoline to a people who feel entitled to it, a people with a very low per capita income, and a people who see their government continue to flourish while their own income continues to fall. Iraq's destruction of nearly all gasoline refineries in Iran exposed this weakness. Since 1988 Iran has embarked on a series of programs designed to provide for its people, a series of programs that it cannot sustain. However, Iran continues to deficit-spend in order to support these subsidies. Iran's dealings with China in particular, as well as its other diversified sources of gasoline, bring into question the ability of the United States to unilaterally negotiate this effort effectively. Regardless of the sanctions placed on Iran that may restrict gasoline imports, by 2011 Iran will not only be self-sufficient, it also will be able to sell gasoline on the world market.

Iran's dependence on gasoline imports is a near-term weakness that cannot be exploited by sanctions. Sanctions are only effective when they target achievable goals and are given time to succeed. The time constraints work against the current round of proposed sanctions on refined

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<sup>49</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?"; Energy Information Administration; Bloomberg.com, <http://www.bloomberg.com/markets/commodities/energyprices.html> (accessed November 11, 2009)

petroleum, with an affect that Iran's actions completely negate the sanctions.<sup>50</sup> Targeting Iran's economy through a variety of options that employs all instruments of national power, rather than relying merely on unilateral or multilateral sanctions, is necessary if the United States is to craft a comprehensive strategy toward denying Iranian sponsored terrorism as global influence.

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<sup>50</sup> For more on sanctions, see Appendix C

## CHAPTER 5

### COUNTERING IRANIAN SPONSORED TERRORISM:

#### A Comprehensive Strategy

[Strategy is the] Theory of the application of power, where power is the ability to produce intended effects.<sup>1</sup>

-Sir Lawrence Freedman<sup>2</sup>

Grand Strategy is a term of art from academia, and refers to the collection of plans and policies that comprise the State's deliberate effort to harness political, military, diplomatic, and economic tools together to advance that State's national interest.<sup>3</sup>

-Dr. Peter Feaver<sup>4</sup>

Feaver states that Grand Strategy is, “the art of reconciling ends and means.”<sup>5</sup> John Lewis Gaddis supports this view, observing that “Grand Strategy need not apply to only war and statecraft: it's potentially applicable to any endeavor in which means must be deployed in the pursuit of important ends.”<sup>6</sup> The U.S. has been in a declared State of Emergency with Iran since 1979, Iran has been on the State Department's list of state sponsors of terror since January 1984, and the U.S. has continued to implement sanctions targeting Iran's nuclear weapons program and sponsorship of terrorism to no avail. The implementation of a comprehensive strategy will likely mean a departure from the current course, which has meant reliance on sanctions while neither

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<sup>1</sup> Benjamin Bilski, Jaques Lanxade, Lord Inge, Douglass Murray, Klaus Naumann, John Shalikashvili, and Henk van den Breemen, *Towards a Grand Strategy for an Uncertain World: Renewing Transatlantic Partnership*, (AK Lunteren: Noaber Foundation, 2007), 90-91.

[http://csis.org/files/media/isis/events/080110\\_grand\\_strategy.pdf](http://csis.org/files/media/isis/events/080110_grand_strategy.pdf) (accessed November 20, 2009)

<sup>2</sup> Sir Lawrence Freedman was a foreign policy advisor to Prime Minister Tony Blair, and continues as Professor of War Studies at Kings College of London.

<sup>3</sup> Peter Feaver, “What is Grand Strategy, and Why do We Need It?” *Foreign Policy.com*, (April 8, 2009) [http://shadow.foreignpolicy.com/posts/2009/04/08/what\\_is\\_grand\\_strategy\\_and\\_why\\_do\\_we\\_need\\_it](http://shadow.foreignpolicy.com/posts/2009/04/08/what_is_grand_strategy_and_why_do_we_need_it) (accessed November 20, 2009)

<sup>4</sup> Dr. Peter Feaver is the Director of the Triangle Institute for Security Studies, Duke University

<sup>5</sup> Feaver, “What is Grand Strategy, and Why do We Need It?”.

<sup>6</sup> John Lewis Gaddis, “What is Grand Strategy?” (Karl Von Der Heyden Distinguished Lecture, Duke University, Chapel Hill, NC, February 26, 2009). p7.

<http://www.duke.edu/web/agsp/grandstrategy/paper.pdf> (accessed November 21, 2009); Dr. John Lewis Gaddis is the Robert A. Lovett Professor of History at Yale University

extending diplomatic relations to Iran, nor taking military action against Iran.

Setting the framework for a comprehensive strategy toward Iranian sponsorship of terrorism begins by determining the aim and objectives of the strategy.<sup>7</sup> The aim of this comprehensive strategy is to deny Iran's global influence capability through the sponsorship of terrorism as a tool of statecraft. Objectives that support this aim are the denial of Iran's ability to move and supply weapons, the denial of Iran's ability to finance terrorist training and operations, and the denial of Iran as a safe haven from which to train and plan operations. This comprehensive strategy must be protective and proactive—not reactive—if it is to be effective.<sup>8</sup>

### **Leveraging All the Elements of National Power**

Potential points that can be leveraged in this comprehensive strategy include Iran's economy, its reliance on oil and gasoline, and Iran's desire to increase both its oil and gas production. Iran's dependence on trading in EU currency must also be leveraged as Iran is unable to deal in U.S. dollars in the amounts required by its economy. Diplomacy with the EU, China, and Russia is still paramount in dealing with Iran as these are Iran's largest trading partners, they deal arms to Iran, and they have the ability to sway or even veto a UN Security Council resolution. The incorporation of military action toward Iran is an obvious departure from the tools currently employed by the U.S. in dealing with Iran, but is necessary if the appropriate pressure is to be applied in order to change Iran's ways.

### **Information: The United States' Message to Iran and the World**

In the information age, the United States must take advantage of its ability to communicate with the people of Iran and the world. Often leaders and planners devise a strategy towards an

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<sup>7</sup> Bilski, Lanxade, Inge, Murray, Naumann, Shalikashvili, and van den Breemen, *Towards a Grand Strategy for an Uncertain World: Renewing Transatlantic Partnership*, 92.

<sup>8</sup> Ibid.

end and then incorporate a supporting message into this strategy. The United States government must devise a consistent message articulating its goals toward the Islamic Republic of Iran and then support that message with a strategy that achieves its goals. In March 2009, President Obama made a historic first attempt at this when he spoke directly to the Iranian people. In his message, his stated goal was for Iran to “take its rightful place in the community of nations.”<sup>9</sup>

The goals articulated by the U.S. government should follow the President’s lead, and show that the United States seeks to normalize relations with the Iranian government. The United States must show that it seeks to help Iran secure its future without the sponsorship of terrorism, and that it seeks to help Iran secure its borders and resume its proper standing in the region as a pillar of stability, a stabilizing factor in the muslim world representing all Shiia honorably. The message should emphasize that these goals are not just in Iran’s best interests, but that they are in the best interests of the world. However, Iran must meet two nonnegotiable conditions before the U.S. and Iran can normalize relations.

The first of these conditions is that Iran withdraw from all paramilitary activities in both Iraq and Afghanistan. The second condition is that Iran cease to be a state sponsor of terrorism, meaning Iran can no longer participate in the direction of activities of a person or organization, the supply of funding or armament, and the use of national assets or territory for training or intelligence.<sup>10</sup> The metric to be applied in order to measure Iran’s intent to move away from state sponsorship of terrorism should be a downturn in terrorist activities conducted by Hezbollah, Hamas, al Qaeda, and al Shabaab.

The United States message to the world must highlight the threat contained in Iran’s

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<sup>9</sup> BBC.com, “Obama Offers Iran New Beginning,” (March 20, 2009) <http://news.bbc.uk/2/hi/7954211.stm> (accessed March 14, 2010)

<sup>10</sup> Yonah Alexander and Milton Hoenig, *The New Iranian Leadership: Ahmadinejad, Terrorism, Nuclear Ambition and the Middle East* (Connecticut: Praeger Security International, 2008), 52.

sponsorship of terrorism. The message must compel world leaders to act on behalf of the security of their people, while understanding these other countries have national interests as well. The United States message must be so compelling that other countries take a lead role in speaking for the world community.

This message must emphasize the United States understanding that the Iranian people deserve a free, democratic government of their choosing and that the Iranian people have the support of the United States. This message will resonate with the people of Iran, as the Iranian government is making a brutal effort to maintain order following the 2009 national elections.<sup>11</sup> The United States must be clear on two points regarding Iran: first, that regime change is not an intended aim of the United States, and second that the United States is not imposing its order, values, or convictions on the Islamic Republic.<sup>12</sup> However, if Iran does not cease to be a state sponsor of terrorism, the U.S. government, with multilateral support, will place painful economic and political pressure on the Islamic Republic of Iran that will take advantage of the unrest among the people and the divisions in the current government. The United States must also communicate with the world in order to garner support for this effort.

In seeking to garner this support, and promote other countries in the lead nation role, the U.S. can then fashion an effort that has multi-lateral support. This support is essential to achieving the denial of Iran's global influence through state sponsorship of terrorism.

### **Financial Sanctions: Hurting Iran with the Euro**

Iran conducts the majority of its transactions in Euros, as U.S. sanctions on certain Iranian banks restrict the Iranian financial system. These U.S. sanctions, coupled with Iran's desire to

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<sup>11</sup> Alan Taylor, "Iran's Disputed Elections," *Boston.com*, (June 15, 2009) [http://www.boston.com/bigpicture/2009/06/irans\\_disputed\\_election.html](http://www.boston.com/bigpicture/2009/06/irans_disputed_election.html) (accessed December 5, 2009)

<sup>12</sup> Bilski, Lanxade, Inge, Murray, Naumann, Shalikashvili, and van den Breemen, *Towards a Grand Strategy for an Uncertain World: Renewing Transatlantic Partnership*, 92.

conduct its petroleum transactions in other than U.S. dollars has made the Iranian financial system largely dependent on the Euro. This reliance on the Euro is a weakness that the international community can exploit in order to restrict Iran's financing of terrorism.

Convincing the European Union (EU) to end its business with Iran is not a viable option as trade between the countries of the EU and Iran has increased sixty fold since 1978, with the EU importing 14.36 billion Euros worth of goods from Iran in 2008, and exporting 11.36 billion Euros in goods to Iran in the same year.<sup>13</sup> The EU is Iran's largest trading partner, with 90% of the EU's Iranian imports being energy related.<sup>14</sup> The likely linchpin in achieving meaningful restrictions on Iran's use of the Euro is Germany.

Germany is Iran's largest EU trading partner, with Iran importing nearly 4 billion Euros in goods from Germany in 2009, while exporting just over 5 million euros in goods to Germany.<sup>15</sup> Additionally, Germany is China's largest EU trade partner, both in imports and exports.<sup>16</sup> Germany's leverage is two-fold. First, it has a trade imbalance with Iran in Germany's favor. Second, there are 1,700 German firms currently doing business in Iran and employing Iranians.<sup>17</sup> Although the EU has a 3 billion Euro trade imbalance with Iran working against it, 40% of all imports to Iran are EU goods, while EU companies like France's Total have ceased doing

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<sup>13</sup> David Bartlett, "Global Challenges," *RSM International.com*, (no date) <http://www.rsmi.com/en/global-challenges/understanding-commercial-relations-between-china-and-the-eu.aspx> (accessed February 22, 2010); European Commission, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/iran/> (accessed February 21, 2010)

<sup>14</sup> European Commission, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/iran/> (accessed February 21, 2010)

<sup>15</sup> Statistisches Bundesamt, *Foreign Trade- Ranking of Germany's Foreign Trade Partners in Foreign Trade 2009*, (February 22, 2010) <http://www.destatis.de/jetspeed/portal/cms/sites/destatis/internet/en/content/statistics/aussenhandel/handels-partner/tabellen/content100/rangfolgehandelspartner.property=file.pdf> (accessed February 22, 2010)

<sup>16</sup> Ibid.

<sup>17</sup> Assaf Uni, "As Iran's Largest Trading Partner, Some EU members Seek to Up Pressure," *Haaretz.com*, (October 25, 2007) <http://www.haaretz.com/hassen/spages/917004.html> (accessed February 22, 2010)

business with Iran.<sup>18</sup> Although China is a factor in the EU equation, China needs the European market and the 160 billion Euro imbalance that it provides China more than Europe needs Chinese goods.<sup>19</sup> Iran, too, needs the European market more than Europe needs Iranian oil.

Although the EU passed sanctions in 2008 that led to the assets of Melli Bank being frozen, more must be done. The EU should adopt a stance similar to that of the U.S. and UK, in which EU banks may not conduct transactions with Bank Melli, Bank Saderat, Bank Mellat, and Bank Sepah. This would still allow legitimate business between the EU and Iran, although not with banks known to launder money and finance the IRGC.

The EU should also limit the size of transactions made by Iran in Euros. Limiting the size of transactions and requiring reporting on these transactions would allow the international community to monitor Iranian financing and interdict terrorism financing activities. As Germany was just named by the multinational Financial Action Task Force (largely responsible for countering international terrorist financing) as “presenting features that are not fully in line with FATF recommendations...” on anti-money laundering and countering terrorist financing, they would certainly take part in these efforts if only to secure their reputation in international finance from disaster.<sup>20</sup>

In establishing limits on Iranian use of the Euro and ending EU dealings with known banks that finance terrorism, not only will tracking Iran’s economy come into clearer focus, there will be increased pressure on Iran’s ability to provide for its citizens and an increased inability to finance terrorism or to ship arms. This limiting effect will make it more difficult for Iran to

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<sup>18</sup> European Commission, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/iran/> (accessed February 21, 2010); Uni, “As Iran’s Largest Trading Partner, Some EU members Seek to Up Pressure,”.

<sup>19</sup> Bartlett, “Global Challenges,”.

<sup>20</sup> Financial Action Task Force, [http://www.fatf.gafi.org/document/39/0,3343,en\\_32250379\\_32236879\\_44650215\\_1\\_1\\_1\\_1,00.html](http://www.fatf.gafi.org/document/39/0,3343,en_32250379_32236879_44650215_1_1_1_1,00.html) (accessed February 22, 2010)

purchase gasoline, arms, and technology to upgrade its petroleum industry.

### **Diplomacy: Engaging China**

China should be engaged to assume more responsibility in its dealings with Iran. Although China has increased its sales of gasoline to Iran, it is not a certainty that these sales must continue status quo.<sup>21</sup> China must become a responsible member of the global community, and while its dealings with North Korea are one aspect of this responsibility, dealing with Iran is another important aspect.

Because China is the primary supplier of gasoline to Iran they have a significant role in influencing Iran's government and economy. The United States should approach China to aid in influencing Iran through its trade in gasoline. China would execute this plan as follows: as long as Iran acts in accordance with international mandates, China will continue to supply them with enough gasoline to operate their economy, but not enough to establish a greater reserve. If however, Iran continues to finance terrorist operations, or provide arms shipments to terrorist organizations, China will play a role in denying gasoline to Iran.

The U.S. must consider that its own actions with foreign military sales to Taiwan, and meetings with the Dalai Lama, influence China's willingness to participate in this type of activity. U.S. actions may actually push China away from the United States, and therefore drive Iran and China closer together as a result. Mitigating Chinese-Iranian relations will mean conferring with, and having the support of China, and taking Chinese perceptions of our own actions into account before we take action where China has equities.

The price tag in negotiating with China in order to take an active role in dealing with Iran is recognizing China as a global power on the world stage. This recognition then will bring China along in taking a much more active role in the world, rather than merely allowing China to

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<sup>21</sup> Rosen, Szrom, and Zarif, "Gasoline Sanctions on Iran: How will Tehran Respond?".

continue to conduct business for the sole benefit of China.

### **Military Action to Affect Iran's Economy**

Iranian born oil economist and FACTS Global Energy Chairman, Dr. Fereidun Fesharaki stated in a 2009 interview that, “The idea that gasoline sanctions will bring Iran to its knees – it is such nonsense.”<sup>22</sup> Military strikes targeting Iran’s gasoline refineries and floating gasoline reserves will have the intended goal of the Iran Refined Petroleum Sanctions Act (IRPSA) with an instant effect. Rather than invading Iran, this use of military action will require the use of air power, sea power, and selected special operations. Regardless of whether the U.S. decides to place a naval blockade along Iran’s coast to ensure there are no gasoline imports, it is doubtful that Iran will be able to import enough gasoline to fill the void created by the loss of its own gasoline refineries. Iran will have no option other than to use the remaining gasoline reserves not destroyed in the initial targeting, and then will be in peril of not providing for its citizens.

Following the assaults on targets in Iran, the U.S. Navy and Air Force will be required to keep the Strait of Hormuz, the Suez Canal, and the Bab al-Mandah Straits open, requiring the destruction of select Iranian naval vessels, with the assumption that there will be further engagements with the Iranians as they attempt reprisal strikes. Escalation of U.S. strikes should also target IRGC-Qods Force targets both inside and outside Iran.<sup>23</sup> As the IRGC is a named terrorist organization with ties to all significant attacks against the United States in the last twenty-five years, it is logical to strike locations associated with this terrorist organization.

The United States must act out of strength where Iran is concerned. While the use of military power may initially only reinforce a current worldview of the U.S. in the near term, this is the

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<sup>22</sup> Paul Merolli, “Economics: Gasoline Sanctions May Help, Not Hurt Iranian Regime,” *Energy Intelligence Group Inc*, (November 15, 2009) [http://www.energyintel.com/print\\_me.asp?document\\_id=638474&pid=31](http://www.energyintel.com/print_me.asp?document_id=638474&pid=31) (accessed November 15, 2009)

<sup>23</sup> See Appendix A for a graphical representation of Iran’s Oil Refineries Nominated for Strike. Also, see Appendix B for a graphical representation of Targets Nominated for Strike.

only way to gain advantage on Iran, as a prelude to diplomacy. Both military strikes against Iran as well as a naval blockade are acts of war, however, no more than Iran's provision of lethal aid to insurgencies in Iraq and Afghanistan.

The U.S. military has never been in better position to affect Iran than it is today. There is historical precedent for military use of force to change Iran's behavior, as with Operation Praying Mantis in 1988. The United States Navy disabled Iranian oil platforms and destroyed several Iranian warships and fighter aircraft following a U.S. vessel striking a mine in the Strait of Hormuz.<sup>24</sup> Iran mining the Strait of Hormuz is not unlike Iran's activities in supplying lethal ordnance to insurgents in Iraq and Afghanistan to kill U.S. soldiers.

In the use of force, the U.S. must consider the effects on Iran as well as on the global market. As Iran is the fourth largest producer of crude oil in the world, targeting Iran's oil production will have adverse effects on oil prices across the globe. In order to keep global gasoline and crude oil prices from rising significantly, Iran would still be able to sell crude oil to its trade partners. It is likely, however, that Iran's trade partners would look to supplant oil imports from Iran, due to the instability caused by tensions with the United States. This would allow Iran's trade partners to continue to run their economies with little disruption while making choices for their own futures. Further, the U.S. would not force other countries to make a "with us or against us" decision, and the countries that trade with Iran would not be obliged to take a side and in the process harm their own businesses. Iran simply would be unable to produce enough gasoline to keep up with its own demands and the refinery projects (currently ongoing) would have to start anew.

Because Iran sells crude oil to allow Iran to finance terrorism, the intent is to place pressure on the Iranian government through gasoline shortages without affecting third-party countries.

Although it is true that only the EU and the UN can successfully enact oil sanctions on Iran, the

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<sup>24</sup> David F. Winkler, "Operation Praying Mantis Blows a Hole in Iranian Navy," *NavyLeague.org*, (September 2003) [http://www.navyleague.org/sea\\_power/sep\\_03\\_45.php](http://www.navyleague.org/sea_power/sep_03_45.php) (accessed November 21, 2009)

ability of the U.S. to deny Iran the ability to finance terrorism will largely come as a secondary effect. A military strike on Iran will cause the leadership to be unable to fund terrorism at its current pace, because the greater requirement to rebuild gasoline refineries and its military capabilities will take first priority. At the same time, Iran must provide for its population in the turmoil that will ensure in the aftermath of a major U.S. strike.

### **Diplomacy with Russia: Limiting Iran's Military/Terrorism Options**

Just as the use of military force effects Iran's economy, the use of diplomacy can limit Iran's ability to employ terrorism or military force. The first step in this approach is engagement with Russia on the sale of arms to Iran. Russia is the largest arms dealer to Iran, however, Iran is not Russia's largest customer.<sup>25</sup> Therefore, the impact on the Russian economy would be negligible, as they would still sell weapons to their major consumers, China and India.

It is difficult to say with certainty that Iran transfers Russian arms to Hezbollah or other terrorist organizations, however, there seems to be evidence indicating this. In 1997 Russia was poised to sell MANPADS anti-aircraft missiles to Iran, which were then to be turned over to Hezbollah.<sup>26</sup> Additionally, in February 2007 LTG Odierno declared that man-portable anti-tank RPG-29s (which Russia solely manufactures) had been found in the hands of Iranian-sponsored Shiite militias in Iraq.<sup>27</sup>

It seems likely that if the U.S. made a compelling case for Russia to halt sales of conventional arms to Iran, then there would be a significant chance of success. This, in turn, would limit the third party transfer of these weapons to terrorist organizations, thereby limiting Iran's ability to

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<sup>25</sup> Lionel Beehner, "Russia-Iran Arms Trade," *Council on Foreign Relations*, (November 1, 2006) [http://www.cfr.org/publication/11869/russiairan\\_arms\\_trade.html](http://www.cfr.org/publication/11869/russiairan_arms_trade.html) (accessed November 21, 2009)

<sup>26</sup> Bill Gertz, "Weapons Transfers to Iran," *The Washington Times*, April 23, 1997 <http://www.globalsecurity.org/wmd/library/news/iran/1997/us970423.htm> (accessed February 15, 2010)

<sup>27</sup> Gareth Porter, *The Blame Game*, The American Prospect.org, (February 2, 2007) [http://www.prospect.org/cs/articles?article=the\\_blame\\_game](http://www.prospect.org/cs/articles?article=the_blame_game) (accessed February 15, 2010)

supply arms to terrorist organizations.

### **Seapower: Multi-Billion Dollar Warships Fighting Terrorism**

The civilian and military leadership of the U.S. should re-prioritize the tasks of the U.S. Fifth Fleet in Bahrain in order to deny Iran its growing influence in the land and waters that influence the Arabian Peninsula. This will come through the formation of a Task Force under Fifth Fleet and CENTCOM utilizing assets already in place at Fifth Fleet as well as legal and diplomatic precedent already established through the cases of the *M/V Monchegorsk*, *M/S Francop*, and *Hansa India*. This new Task Force will have responsibility for countering Iranian influence in the waterways around the Arabian Peninsula, as well as having overlapping authority with Sixth Fleet to interdict vessels shipping arms in the Mediterranean.

The reallocation of assets to a new Task Force will stem greatly the flow of weapons to the horn of Africa, Sudan, Lebanon, the Gaza Strip, and Yemen. In turn, this will deny Iran the ability to influence these areas through the shipment of arms and the employment of Qods Force members. More significant than the effect this will have on Iran, the greater effect will be the eventual stabilization of the region leading to the legitimate governments of these countries to quelling the terrorists they are currently fighting.

Instead of placing priority on this type of operation, the United States Navy should focus on conducting counter-terrorism from the Persian Gulf to the Mediterranean. In the realm of national interests, the U.S. government should not prioritize piracy in the Gulf of Aden higher than countering Iranian sponsored terrorism.

### **Endstate: Concluding This Period of Affairs with Iran**

Before the U.S. can undertake this comprehensive strategy it must determine how to define the end state. Understanding that changes will occur, that there will always be uncertainty in the equation, and that unforeseen events may play a part in the conclusion of this comprehensive strategy, there must be predetermined ways to measure success in this endeavor. These should

include monitoring activity in the training camps in Iran as well as in training camps run by Hezbollah outside Iran to determine an increase or decrease in the activity at the camps, monitoring of financing, and recognizing a downturn in this financing, and monitoring Iranian arms sales and shipments, with a resulting cessation in both of these activities.

When Iran has separated itself from these ways for a sufficient period of time, the UN, the EU, and the U.S. should recognize this and take measures to recognize Iran for doing so. These measures should include a phased reduction in the current sanctions on Iran and helping Iran establish a stronger petroleum industry. Ultimately, this should include the normalization of relations with the United States and the re-integration of Iran as a power in the region.

### **Associated Risk**

While risk is inherent in executing this strategy, the risk associated to the United States in maintaining its status quo policy toward Iran is greater. In allowing Iran to continue to sponsor terrorism unchecked, Iran's regional influence will continue to expand, ultimately leading to strong Iranian influence across the globe. This is likely when considering the spread of Iran's influence in the thirty-two years the Islamic Republic has existed.

As Iran's influence grows, the risk to American citizens grows as well. Iran will continue to target U.S. interests through its surrogates. This will include targeting embassies just as in the 1983 embassy bombing in Beirut as well as kidnapping Americans and providing aid to terrorists wishing to attack the U.S., as with Ramzi Binalshibh and al Qaeda.

If Iran's influence grows, they will directly influence global trade through choke point control of both the Straits of Hormuz, and the Bab el Mandeb Straits. The cost of goods will increase markedly, the U.S. will have difficulty continuing its economic recovery, and in turn will be forced to cut funding of the Armed Forces from its current level in order to support the needs of its citizenry. The ultimate effect will be a decreased U.S. ability to project power across the globe.

Iran will influence the Middle East peace process in an even greater fashion as its aid to Hamas and Hezbollah grows, and in turn, this will destabilize the region. As Iran's influence grows, it will someday attempt to engage Israel in a war on two fronts, with the intent of cajoling Syria into the fight. This great upheaval in the Middle East would again destabilize the global economy as oil prices soared.

The risk associated with conducting this strategy is not to be taken lightly, however. If the United States does not fully account for the interests of its allies and trade partners it risks failure on the global stage. Execution of this strategy has the potential to cause the price of manufactured goods to rise along with the price of oil. The potential exists for the Chinese to interfere in the U.S. efforts to change Iran's behavior, resulting in escalating tensions with China while we are committed to wars in Afghanistan and Iraq.

Execution of this strategy has an associated risk of influencing the support we receive in Iraq and Afghanistan from our friends and allies as well. In weighing the need to change Iran's behavior, the priorities of the U.S. must be part of the equation. Priorities should determine what the United States will and will not do. In a time of a recovering economy, prioritization must not be overlooked.

There is risk to the United States regardless of the measures that it takes to change Iran's behavior in sponsoring terrorism. In determining whether to adopt this strategy or not, the leaders of the United States must consider both the near and long term effects of U.S. policy. U.S. leaders must review history to discern what trends from the past will help forecast future events, and ultimately U.S. leaders must determine the risk to U.S. interests.

## CONCLUSION

There are no accidents in my philosophy. Every effect must have its cause. The past is the cause of the present, and the present will be the cause of the future. All these are links in the endless chain stretching from the finite to the infinite.<sup>1</sup> -Abraham Lincoln

The United States must implement a comprehensive strategy to counter Iranian sponsorship of terrorism that incorporates a combination of military direct action and soft power and is supported by Iran's major trading partners. Since the Iranian revolution in 1979, Iran has participated in the continuous use of terrorism as a tool to achieve its policy goals.<sup>2</sup> Iran's use of terrorism grows from a distrust of the United States and the West as well as the unstable footing Iran finds itself on as an isolated minority in the Muslim world, and a need to minimize threats along borders. This has resulted in Iran becoming the leading state sponsor of terror in the world. Yet there has been little action taken by either the United States or international bodies to change Iran's behavior.

Although the UN and U.S. have enacted sanction regimes against Iran, they are largely ineffective due to a lack of support and enforcement. Sanctions against Iran not only go unenforced by the U.S., they violate the guidelines for the implementation of sanctions resulting in anti-American sentiment rather than multilateral support, thus making the sanctions not only ineffective, but also counter-productive.

The key to exploiting Iran's inability to produce gasoline is not sanctions against third party nations; it is gaining the support of those third parties in changing Iran's behavior. The exploitation of Iran's gasoline refineries begins with diplomacy toward China and Russia and is expanded through military strikes, causing Iran to be solely reliant on gasoline imports. This

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<sup>1</sup> William H. Herndon, and Jesse W. Weik, *Herndon's Life of Lincoln*, (New York: Da Capo Press, 1983), 354.

<sup>2</sup> Yonah Alexander and Milton Hoenig, *The New Iranian Leadership: Ahmadianajad, Terrorism, Nuclear Ambition and the Middle East* (Connecticut: Praeger Security International, 2008), 48.

comprehensive strategy to change Iran's behavior must convey a message that the United States seeks to normalize relations with Iran, but that Iran must meet conditions for this to occur.

In dealing with the Soviet Union through the Cold War, the U.S. learned that it had the advantage of time. Although the U.S. has been in a State of Emergency with Iran since 1979, it is still true today that time is on the side of the United States. It is likely that a normalization of relations is still years in the making, but time must not be lost in the implementation of a comprehensive strategy toward countering Iranian sponsored terrorism.

## Appendix A

### Iranian Oil Refineries Designated for Strike



Source: Google Earth.com; BBS.Keyhole.com<sup>1</sup>

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<sup>1</sup> Google Earth.com, <http://earth.google.com/> (accessed March 2, 2010); BBS.Keyhole.com, <http://bbs.keyhole.com/> (accessed March 2, 2010)

## Appendix B

### Terrorist Training Camps and Military Facilities Designated for Strike



Source: Google Earth.com; BBS.Keyhole.com<sup>1</sup>

<sup>1</sup> Google Earth.com, <http://earth.google.com/> (accessed March 2, 2010); BBS.Keyhole.com, <http://bbs.keyhole.com/> (accessed March 2, 2010)

## Appendix C

### A Discussion of Sanctions Theory

Because economic sanctions have proved to be such a blunt and even counter-productive instrument, a number of governments, and numerous civil society organizations and think tanks around the world, have explored ways to make them smarter by better targeting them... I invite the security council, in particular, to bear them in mind when designing and applying sanctions regimes.<sup>1</sup>

-Kofi Annan, Secretary-General, United Nations, March 2000

These prescient words by Secretary-General Annan could not be truer, as the United Nations has invoked numerous sanctions against Iran since the year 2000. The world also has seen the European Union and the United States take action against the transgressions of the Islamic Republic of Iran since 2000 as well, though primarily for violations of the Nuclear Proliferation Treaty (NPT). Little progress came from these sanctions, as Iran still does not support the Middle East Peace Process, nor has Iran stopped its sponsorship of terrorism, and clearly Iran has not ceased its nuclear program. The lack of tangible results, through sanctions, has led academia and politicians alike to question their utility.

#### **Sanctions Theory and Processes**

The premise of designing a sanctions regime is that the country or organization invoking the sanction seeks to change the behavior of another country.<sup>2</sup> There are two primary theories behind this premise. The traditional theory is that a country enacts sanctions in order to increase national

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<sup>1</sup> Thomas J. Biersteker, and Sue E. Eckert, ed., *Targeted Financial Sanctions-A Manual for Design and Implementation(Contributions from the Interlaken Process)*, (Providence, Rhode Island: The Thomas J. Watson Jr. Institute for International Studies, 2001), 3.  
<http://www.seco.admin.ch/themen/00513/00620/00639/00641/index.html?lang=en> (accessed November 13, 2009)

<sup>2</sup> Emre M. Hatipoglu, T. Clifton Morgan, and Glenn Palmer, "Economic Sanctions and Foreign Policy Suitability: An Application for the Two Good Theory," (Paper Presented at the Annual meeting of the International Studies Association 48<sup>th</sup> Annual Convention, Hilton Chicago, Chicago, IL, February 28 2007), 3. [http://www.allacademic.com/meta/p\\_mla\\_apa\\_research\\_citation/1/8/0/7/6/pages180760/p180760-3.php](http://www.allacademic.com/meta/p_mla_apa_research_citation/1/8/0/7/6/pages180760/p180760-3.php) (accessed November 13, 2009)

security.<sup>3</sup> A less traditional view is that the enacting country is attempting to maintain the status quo in some areas, while changing the status quo in other areas.<sup>4</sup> States that have greater resources have an advantage in changing the status quo, while states that have limited resources have the advantage in maintaining the status quo.<sup>5</sup> Research indicates that while both sanctions and military use of force are a drain on resources, the use of sanctions increases during times of hostilities.<sup>6</sup>

In attaining an End through foreign policy, a country can typically employ a number of options to attain this End. This raises the question of whether these options are substitutable or not.<sup>7</sup> Many see sanctions as a substitute for other actions, primarily military force.<sup>8</sup> Although sanctions do not result in great change, they are cheap and politically palatable.<sup>9</sup> Ultimately, there are two defining factors in the effectiveness of sanctions. These factors are whether the goal is moderate and therefore attainable, and whether there is enough time for the sanction to have the required effect.<sup>10</sup> In enacting sanctions, countries often disregard these factors, with the result being that the sanction does not have the intended effect.

### **Defining the Processes**

Following Secretary-General Annan's remarks, there have been three significant studies in an effort to sharpen the focus of sanctions and make them effective. These studies are the Interlaken Process, the Bonn-Berlin Process, and the Stockholm Process. The Interlaken process made an effort to inform policy makers on how to better target economic sanctions to make them effective

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<sup>3</sup> Hatipoglu, Morgan, and Palmer, "Economic Sanctions and Foreign Policy Suitability: An Application for the Two Good Theory," 3.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid, 22.

<sup>7</sup> Ibid, 12.

<sup>8</sup> Ibid, 4.

<sup>9</sup> Ibid.

<sup>10</sup> Richard N. Haass, "Economic Sanctions: Too Much of a Bad Thing," *The Brookings Institute*, (June 1998) [http://www.brookings.edu/papers/1998/06sanctions\\_haass.aspx](http://www.brookings.edu/papers/1998/06sanctions_haass.aspx) (accessed November 13, 2009)

without unintended effects.<sup>11</sup> The Bonn-Berlin Process made a similar effort in the realm of travel and arms embargoes.<sup>12</sup> The Stockholm Process was a great effort to help the United Nations design a system to implement sanctions.<sup>13</sup> Although these studies produced great efforts, the United Nations spent two years debating the adoption of the Stockholm Process, and ultimately failed to formalize it as the UN's own process.

### **Types of Sanctions**

Sanctions can take the following forms: arms embargoes, foreign assistance reductions, export and import limitations, asset freezes, tariff increases, revocation of most favored nation trade status, negative votes in international financial institutions, withdraw of diplomatic relations, visa denials, cancellation of air links, and prohibitions on credit, financing and investment.<sup>14</sup> The most typical sanctions against Iran are export and import limitations, asset freezes, and arms embargoes as these types of sanctions directly affect Iran's sponsorship of terrorism, and Iran's nuclear program.

### **Guidelines for Implementing Sanctions**

Ambassador Richard Haass, President of the Council on Foreign Policy, set forth guidelines for the use of sanctions in an article published in 1998. Table 2 below is a summation of Ambassador Haass' guidelines for the implementation of sanctions. The process of determining whether the sanctions already in place have been effective is a product of the guidelines set forth by Ambassador Haass, coupled with the factors of time and realistic expectation regarding the

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<sup>11</sup> Biersteker, and Eckert, ed., *Targeted Financial Sanctions-A Manual for Design and Implementation(Contributions from the Interlaken Process)*, 3.

<sup>12</sup> Michael Brzoska, ed., *Design and Implementation of Arms Embargoes and Travel and Aviation Related Sanctions (The Bonn-Berlin Process)*, (Bonn, Germany: Bonn International Center for Conversion, 2001) [http://www.watsoninstitute.org/tfs/cd/booklet\\_sanctions.pdf](http://www.watsoninstitute.org/tfs/cd/booklet_sanctions.pdf) (accessed November 13, 2009)

<sup>13</sup> Mikael Eriksson, Carina Staibano, and Peter Wallensteen, ed., *Making Targeted Sanctions Effective: Guidelines for the Implementation of UN Policy Options (The Stockholm Process)*, (Oslo, Norway: Uppsala University Department of Peace and Conflict Research, February 2003) <http://www.smartsanctions.se/> (accessed November 13, 2009)

<sup>14</sup> Haass, "Economic Sanctions: Too Much of a Bad Thing,".

goal of the sanction.

**Table 2**

**Ambassador Haass' Guidelines for Implementation of Sanctions**

Sanctions can help to achieve modest goals

Secondary sanctions against third parties make matters worse by driving anti-American sentiment

Sanctions are expensive for American businesses

Sanctions are easier to impose than to lift

Sanctions fatigue and compliance diminishes

Give the use of sanctions the same rigorous consideration given to military use of force

Multilateral support for sanctions is a must

Sometimes military use of force is a better choice

*Source:* The Brookings Institute<sup>15</sup>

**United Nations Sanctions**

The United Nations has taken a keen interest in the activities of Iran since the 1979 Revolution. As Iran has continued to pursue its errant ways in the eyes of the world, the UN has continued to place sanctions on Iran in an effort to force change in Iran's behavior. The preponderance of existing UN sanctions focus on Iranian violations of the Nuclear Proliferation Treaty (NPT), and rarely address Iranian sponsorship of terrorism. Table 3 below details the existing UN sanctions on Iran.

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<sup>15</sup> Haass, "Economic Sanctions: Too Much of a Bad Thing,".

Table 3

## Existing UN Sanctions Affecting Iran

Sanction	Date Enacted	Focus of the Sanction	Effectiveness
UNSCR 1835 <sup>16</sup> (Iran Specific)	27 SEP 08	Reaffirms commitments in other resolutions, no new sanctions or timelines	Largely symbolic
UNSCR 1803 <sup>17</sup> (Iran Specific)	3 MAR 08	Calls for Cargo Inspections, Notes Bank Melli and Bank Saderat activity, Notes Iranian non-compliance with IAEA	Inspections conducted under this resolution
UNSCR 1747 <sup>18</sup> (Iran Specific)	24 MAR 07	Places Arms Embargo on Iran	Inspections conducted under this resolution
UNSCR 1737 <sup>19</sup> (Iran Specific)	23 DEC 06	Discusses Iranian violation of NPT	Symbolic
UNSCR 1373 <sup>20</sup>	28 SEP 01	Calls on all states to prevent terrorism, freeze funds, deny safe havens, and prevent acts of terrorism	Symbolic
UNSCR 1368 <sup>21</sup>	12 SEP 01	Denounces September 11 attacks	Symbolic
GA 50/53 <sup>22</sup>	11 DEC 95	Strong words against terrorism, no sanctions or timelines	Symbolic
GA 49/60 <sup>23</sup>	4 DEC 94	Strong words against terrorism, no sanctions or timelines	Symbolic
Conventions on Terrorism <sup>24</sup>	NA	Suppression of bombings, financing, hostage taking, largely unsigned by members	Symbolic

Source: The United Nations, and Globalpolicy.org

In accordance with the guidelines set forth by Ambassador Haass, the sanctions put in place by the UN Security Council (UNSC) are too broad reaching in their objectives, although they

<sup>16</sup> United Nations Security Council, *UNSCR 1835*, S/RES/1835, (New York, September 27, 2008) [http://www.iaea.org/newscenter/focus/ieaeiran/unscre\\_1835-2008.pdf](http://www.iaea.org/newscenter/focus/ieaeiran/unscre_1835-2008.pdf) (accessed November 15, 2009)

<sup>17</sup> United Nations Security Council, *UNSCR 1803*, S/RES/1803, (New York, March 3, 2008) <http://www.globalpolicy.org/images/pdfs/scr1803.pdf> (accessed November 15, 2009)

<sup>18</sup> United Nations Security Council, *UNSCR 1747*, S/RES/1747, (New York, March 24, 2007) <http://www.globalpolicy.org/images/pdfs/0324resolution.pdf> (accessed November 15, 2009)

<sup>19</sup> United Nations Security Council, *UNSCR 1737*, S/RES/1737, (New York, December 23, 2006) <http://www.globalpolicy.org/images/pdfs/resolution1737.pdf> (accessed November 15, 2009)

<sup>20</sup> United Nations Security Council, *UNSCR 1373*, S/RES/1373, (New York, September 28, 2001) <http://www.un.org/docs/scres/2001/sc2001.htm> (accessed November 15, 2009)

<sup>21</sup> United Nations Security Council, *UNSCR 1368*, S/RES/1368, (New York, September 12, 2001) <http://www.un.org/docs/scres/2001/sc2001.htm> (accessed November 15, 2009)

<sup>22</sup> United Nations General Assembly, *GA 50/53*, A/RES/50/53, (New York, December 11, 1995) <http://www.un.org/documents/ga/res/50/a50r053.htm> (accessed November 16, 2009)

<sup>23</sup> United Nations General Assembly, *GA 49/60*, A/RES/49/60, (New York, December 9, 1994) <http://www.un.org/documents/ga/res/49/a49r060.htm> (accessed November 16, 2009)

<sup>24</sup> United Nations General Assembly, *United Nations Treaty Collection*, [http://treaties.un.org/pages/db.aspx?path=db/studies/page2\\_en.xml&menu=mtmsg](http://treaties.un.org/pages/db.aspx?path=db/studies/page2_en.xml&menu=mtmsg) (accessed November 16, 2009)

clearly have allowed plenty of time for the sanctions to work in some cases. The sanctions discuss the Iranian nuclear program, as well as Iran's sponsorship of terrorism. The sanctions are not directive in most cases, do not smartly target areas of Iran's economy and rarely set time limits for Iran to change its ways. Therefore, it is difficult to assess whether the sanctions are effective or not. The UN does adhere to the guideline of not sanctioning third parties, and garners multilateral support consensus and support in its efforts as well. However, the reluctance of the UN in taking a forceful stance in enacting sanctions makes the UN sanctions largely symbolic and ineffective.

### **United States Sanctions**

During a hearing in 2005, Congressman Ackerman, Chairman of the House Sub-Committee on the Middle East and South Asia, stated, "...we have a grand bargain with our European and Japanese friends: if they will pretend to take our concerns about Iran seriously, we will pretend to enforce our laws."<sup>25</sup> This withering statement by Congressman Ackerman regarding U.S. policy toward Iran was completely accurate and warranted, sadly. The United States has imposed every type of sanction against Iran listed by Ambassador Haass. This has led experts to feel that, "State leaders, especially within the United States, often rely on economic sanctions to impose costs on other states in an effort to induce those targets to change objectionable policies."<sup>26</sup> In addition, there is significant U.S. legislation and Declarations of Emergencies regarding Iran.

### **Executive Orders and Past Legislation**

Executive Order 12959, signed by President Clinton in May 1995, banned all trade with

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<sup>25</sup> Committee on International Relations Joint Hearing Before the Subcommittee on the Middle East and Central Asia; and the Subcommittee on International Terrorism and Non-Proliferation of the Committee on International Relations House of Representatives, *Iran: A quarter Century of State Sponsored Terror*, 100<sup>th</sup> Cong., 2005

<sup>26</sup> Hatipoglu, Morgan, and Palmer, "Economic Sanctions and Foreign Policy Suitability: An Application for the Two Good Theory," , 3.

Iran.<sup>27</sup> The Iran Libya Sanctions Act (ILSA) followed in August 1996; it intended to limit Iran's ability to upgrade its petroleum industry.<sup>28</sup> U.S. allies refused to take part in the sanction, seeing it as an extraterritorial application of U.S. law.<sup>29</sup> Congress changed the ILSA to the Iran Sanction Act (ISA) in 2006, and extended it until 2011. Although the ISA placed import, export, loan, and investment restrictions on dealings with Iran, neither the Justice Department nor the State Department ever announced indictments or determinations of violation under this law.<sup>30</sup> Essentially, the ISA has never been invoked, and in fact there have been Presidential waivers issued on the grounds of national interests so that the ISA would not be invoked.

Following the ILSA and ISA, there have been several Executive Orders blocking the property of individuals or entities. These included E.O. 13438. Signed in July 2007, this order specified persons attempting to destabilize Iraq, naming several Iranians.<sup>31</sup> E.O. 13382 blocked the property of Proliferators of WMD, naming Iranian banks, shipping companies, the IRGC, and IRGC leadership.<sup>32</sup> Additionally E.O. 13224 blocked the property of persons who commit or support terrorism.<sup>33</sup> Although these Executive Orders were signed authorizing the freezing of assets, little action was taken.

### **The Iran Refined Petroleum Sanctions Act**

The Iran Petroleum Sanctions Act (IRPSA) is currently under consideration in both the House (H.R. 2194) and the Senate (S 908), and recently passed a vote in the House Foreign Affairs

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<sup>27</sup> President, "Executive Order 12959: Prohibiting Certain Transactions with Respect to Iran," *Federal Register* vol. 60, no. 80 (May 9, 1995):3-4.

<http://www.treas.gov/offices/enforcement/ofac/legal/eo/12959.pdf> (accessed November 16, 2009)

<sup>28</sup> Kenneth Katzman, "The Iran Sanctions Act," *Congressional Research Service*, (October 12, 2007) <http://www.fas.org/sgp/crs/row/rs20871.pdf> (accessed November 16, 2009)

<sup>29</sup> Kenneth Katzman, "Iran Sanctions," *Congressional Research Service*, (October 8, 2009) <http://www.fas.org/sgp/crs/mideast/rs20871.pdf> (accessed November 16, 2009)

<sup>30</sup> Katzman, "The Iran Sanctions Act,".

<sup>31</sup> President, "Executive Order 13438: Blocking Property of Certain Persons Who Threaten Stabilization Efforts in Iraq," *Federal Register* vol. 72, no. 138 (July 19, 2007):3-5. <http://www.treas.gov/offices/enforcement/ofac/legal/eo/13438.pdf> (accessed November 16, 2009)

<sup>32</sup> President, "Executive Order 12959: Prohibiting Certain Transactions with Respect to Iran,".

<sup>33</sup> President, "Executive Order 12959: Prohibiting Certain Transactions with Respect to Iran,".

Committee.<sup>34</sup> The legislation strengthens the Iran Sanctions Act by giving the President the power to sanction companies that provide refined petroleum products to Iran, aid in their shipment, or take part in financing Iran's petroleum industry at an amount exceeding \$20 million in one year.<sup>35</sup> This legislation is much stronger than the existing ISA, as it lowers the investment amount from \$40 million to \$20 million, and targets Iran's ability to fuel its economy. This legislation does have its critics, however.

When asked his thoughts on the sanctioning of gasoline to Iran, Richard Dalton, the British Ambassador to Iran until 2006, stated that, "People use this term Achilles heel, but it has got very little substance to it."<sup>36</sup> As presented previously, Iran has taken steps to mitigate the effectiveness of these sanctions, and these sanctions may do more harm than good internationally. Hence, this sanction would only work against third party companies and nations.<sup>37</sup> There is also the thought that these sanctions would allow Iran to raise the price of gasoline and therefore lower the cost to Iran's government of subsidizing gasoline to its citizens.<sup>38</sup> This in turn could possibly help the Iranian government financially, although this is not a certainty.

When cast in the light of Ambassador Haass' guidelines for imposing sanctions, the IRPSA does not look well. The IRPSA targets Iran's nuclear program, ballistic missile program, and sponsorship of terrorism. The IRPSA will not be effective until sometime in 2010, yet Iran becomes gasoline self-sufficient the following year. The IRPSA imposes sanctions on third parties in order to affect Iran, and as part of the ISA, the IRPSA does not share multilateral

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<sup>34</sup> Govtrack.us, "H.R. 2194: Iran Refined Petroleum Sanctions Act of 2009," <http://www.govtrack.us/congress/bill.xpd?bill=h111-2194&tab=summary> (accessed November 17, 2009)

<sup>35</sup> Govtrack.us, "H.R. 2194: Iran Refined Petroleum Sanctions Act of 2009,".

<sup>36</sup> Vivienne Walt, "How Badly Would Sanctions on Gas Imports Hurt Iran?" *Time.com*, (September 30, 2009) <http://www.time.com/time/world/article/0,8599,1926655,00.html> (accessed November 13, 2009)

<sup>37</sup> Paul Merolli, "Economics: Gasoline Sanctions May Help, Not Hurt Iranian Regime," *Energy Intelligence Group Inc*, (November 15, 2009) [http://www.energyintel.com/print\\_me.asp?document\\_id=638474&pid=31](http://www.energyintel.com/print_me.asp?document_id=638474&pid=31) (accessed November 15, 2009)

<sup>38</sup> Djavad Salehi-Isfahani, "Iran Sanctions: Who Really Wins?" *The Brookings Institute*, (September 30, 2009) [http://www.brookings.edu/opinions/2009/0930\\_iran\\_sanctions\\_salehi\\_isfahani.aspx](http://www.brookings.edu/opinions/2009/0930_iran_sanctions_salehi_isfahani.aspx) (accessed November 13, 2009)

support.<sup>39</sup>

These facts indicate that the IRPSA is in violation of Ambassador Haass' guidelines for the implementation of sanctions.<sup>40</sup> When coupled with the question of whether the United States will actually impose IRPSA sanctions, as historically there have been no sanctions imposed under the ISA, it seems highly questionable whether the IRPSA will have any impact other than that of a symbolic gesture or yet another statement of U.S. position.

Neither the UN nor the United States have been successful in changing Iran's behavior through sanctions. This is evident in the fact that Iran still sponsors terrorism, still seeks a nuclear program, has achieved a worthy ballistic missile program, and does not support the Middle East Peace process. While the UN is unable to enforce its own sanctions (relying on the countries of the world for enforcement) the United States has been unwilling until recently to enforce its own sanctions. Further, the United States' sanctions do not have multilateral support, and in fact are effectively third party sanctions, harming more countries than just Iran, and creating anti-American sentiment.

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<sup>39</sup> Katzman, "Iran Sanctions,".

<sup>40</sup> Haass, "Economic Sanctions: Too Much of a Bad Thing,".

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## **VITA**

Major Prussian graduated from Bowling Green State University in 1995 as a Distinguished Military Graduate, with a BA in History. Commissioned in the Infantry Major Prussian served his initial tour of service with the 82<sup>nd</sup> Airborne Division. Following a deployment to Albania and Kosovo, Major Prussian attended schooling ultimately graduating from the Special Forces Qualification Course in December 2001. He was assigned to 1<sup>st</sup> Special Forces Group and other Special Operations assignments, serving in the Philippines, Iraq, and several other locations.